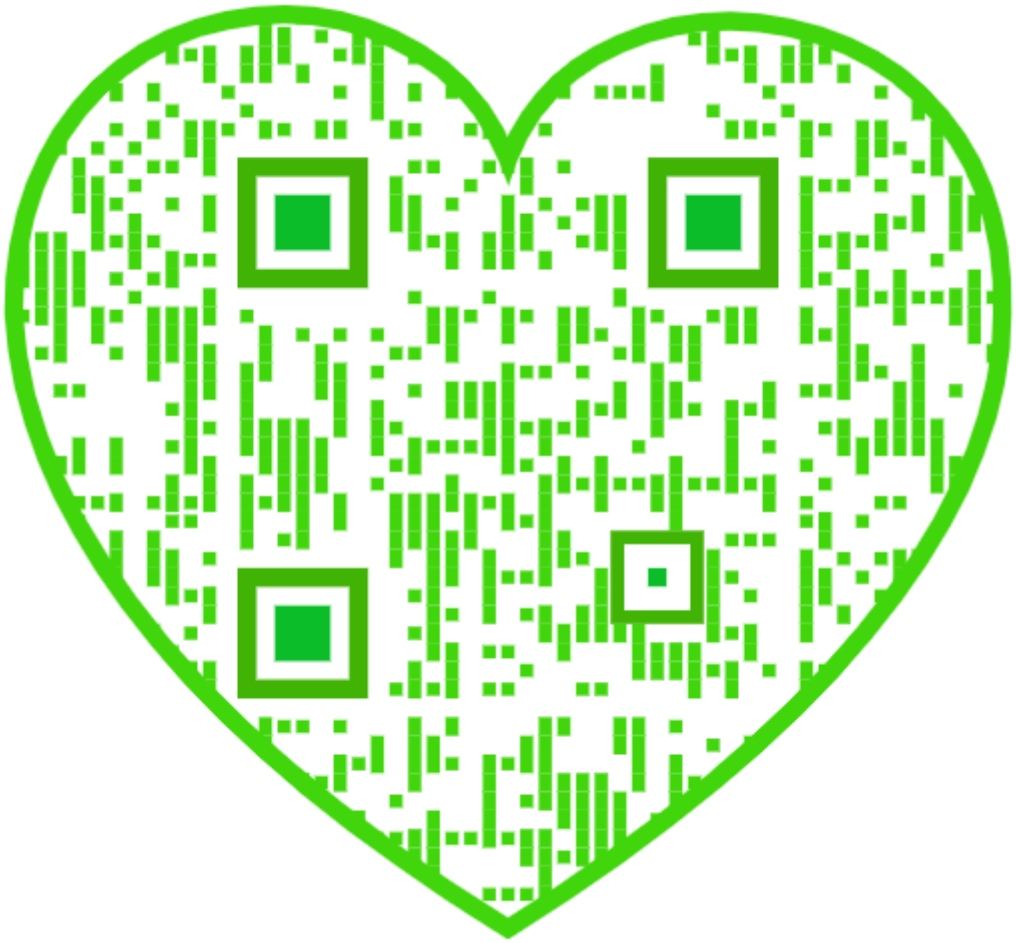

ELEMENTARY BANKING

UNIV. OF
CALIFORNIA

American Institute of Banking

Section American Bankers Association

Five Nassau Street New York City

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PREFACE

THE Institute course of study in Elementary Banking, was originally adopted in 1918. Many experienced bank clerks had left their institutions and entered either the military or naval service. Their places were filled by young men and women with little, if any, business training or experience. With the idea of providing a practical and logical course of study for these newcomers in the banking profession, as well as a foundation for the Institute Standard courses of study, a text-book covering the elements of banking and law seemed to be desirable. J. F. Ebersole of the University of Minnesota, who had been teaching an elementary banking course in Minneapolis Chapter, was selected to prepare such a book, based on the lectures given in Minneapolis Chapter. That book has been a distinct success. The present text entitled "Elementary Banking" is based on the book just referred to. However, the original text literature has been completely revised and brought to date, in some cases being rewritten and rearranged, and, in addition, four chapters on bank bookkeeping and accounting have been added. Chapters I, II, III, IV, V, VI, VII and VIII have been revised by James B. Birmingham, Assistant Cashier of the National City Bank of New York; chapters IX and X have been revised and rearranged by Richard W. Hill, Member of the New York Bar and Secretary of the American Institute of Banking; and chapters XI, XII, XIII and XIV were prepared by Arthur K. Schulz of the Chase National Bank of New York. John M. Chapman, Lecturer on Banking in the School of Business of Columbia University, assisted in the necessary rearrangement of the text. Thomas Ritchie, Comptroller, and Martin L. L. Henry, Auditor, both of the Chase National Bank of New York, were generous with constructive criticisms of the accounting material.

INSTITUTE PLATFORM

RESOLUTION adopted at the New Orleans Convention of the American Institute of Banking, October 9, 1919:

"Ours is an educational association organized for the benefit of the banking fraternity of the country and within our membership may be found on an equal basis both employees and employers; and in full appreciation of the opportunities which our country and its established institutions afford, and especially in appreciation of the fact that the profession of banking affords to its diligent and loyal members especial opportunities for promotion to official and managerial positions, and that as a result of the establishment and maintenance of the merit system in most banks a large number of Institute members have through individual application achieved marked professional success, we at all times and under all circumstances stand for the merit system and for the paying of salaries according to the value of the service rendered.

"We believe in the equitable cooperation of employees and employers and are opposed to all attempts to limit individual initiative and curtail production, and, insofar as our profession is concerned, are unalterably opposed to any plan purporting to promote the material welfare of our members, individually or collectively, on any other basis than that of efficiency, loyalty and unadulterated Americanism."

A successful banker is composed of about one-fifth accountant, two-fifths lawyer, three-fifths political economist, and four-fifths gentleman and scholar—total ten-fifths—double size. Any smaller person may be a pawnbroker or a promoter, but not a banker.—George E. Allen.

Elementary Banking

CHAPTER I

Elementary Essentials

THE beginner in a bank usually discovers that he does not have at his command a sufficient knowledge of commercial documents and banking practice. Later on, also, he often realizes that he did not start out with the best principles of personal conduct or a proper attitude or view of his own job. It is the object of this book to help the beginner to acquire this necessary information at the earliest possible moment. He may then become a very efficient helper within a short time. The managers of banks who are obliged to train beginners find this to be a problem of some difficulty and considerable expense. It has been estimated that the training of the average beginner costs a bank about two hundred dollars in the form of unearned wages at the start, valuable time consumed by the officers or men in the bank who supervise the instruction of beginners, losses through errors due to ignorance, and waste due to inefficient utilization of time and energy.

WHAT IS A BANK?—A bank may be defined as a credit institution. It is an institution which studies, deals in and guarantees credit. While the bank receives and pays out large sums of money in

the form of deposits, such operations are subordinate to the one great function—that of granting credit. If we view, then, the bank from this standpoint, its purpose is to facilitate the exchange of goods without the use of money. Banking has been developed to meet the needs of business. Hence, the more highly developed business becomes, the more extensively bank credit is used and the more important banking becomes in the transaction of business with the use of a minimum amount of money.

THE FUNCTIONS OF BANKING. — The most important functions of banking may be classified as follows: (1) to assemble capital and make it effective; (2) to receive deposits and make collections; (3) to check out and transfer funds; (4) to discount or lend; (5) to exercise fiduciary or trust powers; (6) to issue circulating notes. Every bank which expects to succeed must first of all prove its value to the community. The services which a bank performs are so generally taken for granted that the public is unaware of the real extent of the facilities offered. Banks are equipped to utilize funds, for either a short or long period of time, safely, and with some profit. Depositors individually do not enjoy the same ability. An individual's unused funds are perhaps small in amount, cannot be loaned to advantage with the assurance of immediate return when desired, and the care of the money involves worry and risk. The bank, on the other hand, possesses the necessary men, machinery and experience. By obtaining deposits, each perhaps small in itself, from

many people, it acquires a large reservoir of funds. From this supply, which is constantly being increased by additional deposits and decreased by withdrawals according to the needs and circumstances of the depositors, the bank can now make loans and other investments from time to time. It is known as a place where loans may be sought, and it is protected in making these loans of funds which it has had left with it on deposit by the law of averages which usually operates in such a way that withdrawals and deposits about balance each other, the normal tendency being in favor of a net increase. By receiving deposits and making collections the bank saves the depositor much personal effort. To receive or deposit in one city a check made payable in another, hundreds or thousands of miles away, to convert that check in a relatively short time into cash available for the depositor's use, and all this with no direct assistance from the customer and at a very slight expense to him or none at all, is indeed service. So also is the willingness of the bank to collect promissory notes, drafts and other negotiable paper in a similar way. In addition to taking care of funds without charge and making collections, the bank provides the means of withdrawing and transferring funds readily by giving its customer a book of blank checks. If a depositor owes another man one hundred dollars, the depositor need not go to the bank, withdraw the cash and pay his debt. He can give his creditor an order on the bank, which can be presented at the bank in person and the cash obtained, or it can be

deposited in this or another bank. By lending money the bank benefits the community to the extent that it supplies funds to assist worthy business. Temporary working capital to assist in the commercial, agricultural or industrial life of a community is very important. Borrowers logically look to a bank for such assistance and are thereby saved the necessity of either going without the funds they need or spending an endless amount of time and effort in negotiating many small loans from individuals. Note issue, originally a common right of a bank, is now restricted by law to National banks, Federal Reserve banks and the Government, and is chiefly valuable as a means of putting additional currency in circulation according to the needs of trade. There has been such an enormous growth in the business done by trust companies and by trust departments of banks in the last few years by acting in various fiduciary capacities that it seems necessary to include this as one of the important banking functions, which will be more fully discussed a little later.

TYPES OF BANKING.—According to their functions, banks may be classified into four chief types, namely, commercial, savings, trust, and investment. The deposits of commercial banks are received largely from individuals, firms and corporations in all lines of business, are repayable on demand, and are mostly invested in short time loans for commercial business purposes, these loans having a maturity of perhaps three to six months, and enabling the bank to keep its assets comparatively liquid and

its loans constantly maturing. Savings banks, which are designed to promote thrift, receive unused, small sums from the general public, which are left with the banks for future need. These deposits may be repaid on demand, but since interest is usually paid on deposits, and the bank's investments are made for a long period of time to enable it to earn a higher interest rate, the banks are generally allowed to demand advance notice of anywhere from ten to ninety days of any substantial sums to be withdrawn. This notice of withdrawal may be waived by the bank if it so desires. The bank may also further protect itself against large withdrawals by limiting the amount which it will receive on deposit from any one person. The chief investments of savings banks are approved bonds and first mortgages on real estate, both probably of long maturity. The deposits classified as trust funds are received from individuals, firms and corporations assigning funds for some trust function, and are repayable and invested according to law and the conditions of the trust. Investment banks receive their deposits from well-to-do people who wish their funds held for investment and which are in due course converted into bonds, acceptances and other so-called investment securities. A particular bank may perform functions of more than one type of banking as the recent tendency in banking is towards an ever greater scope of business, partly caused by competition and partly by the natural desire of a bank to handle all of the business of its customers which it readily can.

KINDS OF BANKS.—The kind of bank which will be formed in any community is largely determined by the needs of that community. Under the general types just discussed we find the following classifications: National, State and private banks, and the banking departments of some trust companies which perform the functions of a commercial bank. In addition, a private bank usually does either an investment or a savings business. Savings banks are either mutual or stock or perhaps but a department of a commercial bank. Many banks perform trust functions, although originally this work was monopolized among banks by trust companies incorporated for that express purpose; today we find National and State banks also acting in fiduciary capacities. Many houses call themselves investment bankers, principally dealers in bonds, mortgages, and acceptances and the bond departments of banks and trust companies.

INSTRUMENTS OF BANKING.—The principal instruments of banking are (1) money and currency, (2) checks, (3) bills of exchange or drafts, (4) acceptances, (5) promissory notes. A "check" may be defined as a written order on a bank or banker for the payment of money. A "bill of exchange" or "draft" may be defined as an order drawn by one party, called the "drawer," on another party, called the "drawee," for the payment of money to a third party, called the "payee," the amount to be charged to the drawer. A bill of exchange may be drawn payable at sight or at some specified time subsequent

to sight or demand. Unless the drawee wishes to pay a time draft or bill when presented before it is due, he writes across the face of the paper the word "accepted," with his signature and the date. This means that the drawee assents to the terms of the bill or draft and binds himself to honor it at maturity. It then becomes known as an "acceptance." A "promissory note" is a promise made in writing by one party, called the "maker," to pay a sum of money to another party, called the "payee," or to his order.

BANK ORGANIZATION. — Banking laws in the United States, both National and State, have become crystallized into concrete form, and in the organization of any banking corporation certain legal requirements are prescribed by governmental authorities. Under the National Bank Act there is practically but one form of charter under which all National banks are organized. They are subject to Federal supervision and examination and their chief functions are those of a commercial bank, customarily called deposit and discount. In addition, a National bank has the right to issue circulating notes (currency) up to the amount of its capital stock, secured by an equivalent amount of U. S. Government pre-war bonds. Many National banks also operate savings departments which are sometimes called thrift or interest departments to avoid a conflict with State laws limiting the use of the word "savings" to State institutions organized specifically for that purpose. While National banks are not under State super-

vision, they are governed by the laws of the State in which they are located in some few important matters such as legal holidays and interest rates. The laws of the different States provide for State banks of deposit and discount, loan and trust companies and savings banks. State banks, so-called, are usually commercial banks of deposit and discount and very closely resemble National banks except that they generally have a greater latitude in the ways in which they may lend money and in the amount they may lend to one borrower. A State bank which joins the Federal Reserve System has to conform very closely to the same rules that govern National banks. No bank organized under State laws issues currency. A State bank may by its title show that it is intended to perform various functions. It may be a savings and loan company, a trust and savings bank, etc. Whatever its function, it is organized under the laws of the State and is subject to the supervision of and examination by the State banking authorities. In a restricted sense building and loan associations also do a banking business and may be incorporated under State law. Trust companies are organized primarily for the purpose of holding and administering trusts of various kinds. In this capacity trust companies may act for both individuals and corporations in the following capacities: A. Individual—(1) executor of wills, (2) administrator of estates, (3) trustee under agreement, will or deed of trust, (4) guardian of minors and incompetents, (5) conservator or committee of incompetents, (6) agent of individuals. B.

Corporate—(1) transfer agent and registrar, (2) fiscal agent, (3) trustee under mortgage, (4) assignee and receiver of bankrupts (individuals or corporations), (5) guarantor of titles, (6) treasurer. The great growth of trust companies and trust departments may be attributed chiefly to the fact that they have perpetual existence, are always available during banking hours, are proficient and efficient, show no favoritism, operate economically, and have a record of 100% honesty in handling trust funds from their inception to date. Many trust companies are divided into two principal departments, the trust department which has just been described and a banking department which is almost identical in functions with a State bank of deposit and discount. National banks in many cases obtain permission from the Federal Reserve Board to act in various trust capacities, and in some States the so-called State banks may also be granted these powers. Savings banks are of two kinds—mutual and stock. The former have no stockholders, are governed by a philanthropic and self-perpetuating board of trustees, and pay the earnings of the bank to the depositors as interest. Stock savings banks pay an agreed rate of interest and distribute the profits to the stockholders as in any commercial bank. The bank is managed by directors elected by the stockholders. Mutual savings banks are found more frequently in the Eastern and Atlantic States. In many States, especially in the West and South, stock savings banks enjoy functions similar to those of State banks of deposit and dis-

count, and frequently State banks and trust companies, not especially organized for the purpose, endeavor to obtain savings deposits.

BANK ADMINISTRATION.—Banks are governed by boards of directors elected by the stockholders. By law, the directors are primarily responsible for the administration of the bank. Bank officers are chosen by the directors and are charged with the duties and responsibilities of active administration. The size of the bank, its location and the amount of business done determine the number of officers, although in every bank there are at least two, namely, a president and a cashier. In larger banks there is also a vice-president and, sometimes, an assistant cashier. In the great city banks there are frequently two or more vice-presidents and assistant cashiers. In the administration of the affairs of any bank the duties and responsibilities of every officer and employee should be well defined. Responsibility is commensurate with authority, and officers and employees should be held to strict accountability for the satisfactory performance of their own specific duties—no more, no less. Those who do more than their duty are in a class by themselves. Ambition to do better and greater things, however, must not lead to the mistake of neglecting routine work. Banking is a business of infinite detail, and accuracy and promptness in minor matters are essential to any complete and logical system of administration.

ROUTINE WORK.—The banker who begins at the bottom—and that is where every banker should

BANK ORGANIZATION CHART

STOCKHOLDERS who own the bank

Elect

DIRECTORS who direct the policy of the bank

Appoint

- Discount Committee
- Executive Committee
- Examination Committee

OFFICERS who manage the bank,

Employ

- President
- Vice-President
- Cashier (or Treasurer or Secretary)
- Assistant Cashiers

CLERKS who do the detail work, classified opposite

EXECUTIVE DIVISIONS OF WORK

- Loan and Discount Department
- Credit Department
- Auditor
- Analysis Department
- New Business Department
- Trust Department

TELLER DIVISIONS OF WORK

- Paying Teller
- Receiving Teller
- Note Teller
- Collection Teller
- Exchange or Draft Teller

BOOKKEEPING DIVISIONS OF WORK

- General Ledger
- Individual Ledgers
- Savings Accounts
- Country Bank Accounts
- Statement Clerks

begin, whether his social position is at the beginning or the end of an ancestral line—should systematize routine work into habit, thereby simplifying physical movements, diminishing fatigue and assuring speed and accuracy. Uniform and continued practice will create well-beaten channels of thought, so that a minimum of mental suggestion will cause the automatic performance of a mountain of detail, with the nervous system as an ally and not an enemy. The only danger in thus maximizing the physical and minimizing the mental is that intellectuality may sometimes become obscure. The beginner in banking should master routine, but should not let routine master him. In accordance with such conception of routine work, every bank man, no matter what his position, will find it convenient occasionally to use the adding machine. The messengers in preparing their own runs, and in helping with the morning work in the mail or transit department, will find it indispensable to run an adding machine with rapidity and accuracy. In order to secure this rapidity with accuracy, beginners should learn the right method of running such machines from the very start of their training.

MESSENGERS AND OTHER BANK MEN. —This book will refer to the beginner as a "messenger." All bank employees are not messengers, but the duties and responsibilities of the messenger are such that all bank men will do well to study the work of such beginners and to learn of their problems. The lack of one simple fact may influence an important

decision. The elements of bank administration are therefore worth most careful study. It should be considered a great advantage to begin at the bottom in the banking business. It is only by beginning at the bottom that a man can become familiar with all the details of the business. And later, when he becomes a department head or officer, the man who has begun at the bottom will understand his duties better and will know what to expect of other men. The messengership is a golden opportunity to learn of modern business by observing local business practices, documents and men. This is a privilege that may be enjoyed only in the duties of a messenger unless one later becomes a part of the credit department.

NEEDS OF THE BEGINNER.—There are three important things which the messenger should acquire during his first week in the bank. These are (1) a desire to make the business men of the city like his bank; (2) a desire to secure merited personal advancement in his own bank; (3) a certain amount of definite information concerning adding machines and the duties of messengers on routes.

HOW MAY A MESSENGER INFLUENCE BUSINESS MEN?—Messengers have an important influence on the ideas of business men concerning particular banks. Many people judge a bank by its messengers because they see the messengers often and may never actually come to the bank to see any one else. While the officers often meet the public in the making of loans and the transacting of other business, yet the messengers are very important from the

standpoint of appearances, for they assist in collecting the obligations due to a bank. It is equally as important to make a good impression when collecting as when lending. Personal cleanliness is the first essential in making a good impression. Customers consider smoking as questionable in a young man. Even the officers who smoke usually prefer the young man who does not smoke. As the personal representatives of the bank, therefore, messengers should consider their own personal appearance equally as important as the personal appearance of an officer.

The second essential is courtesy and politeness. The essence of courtesy is to treat every individual with equal kindness and consideration. What may appear to a messenger to be a very insignificant transaction with a very insignificant individual may, as a matter of fact, influence a very large transaction for or against his own bank. So much of modern business is carried on over the telephone that the customers of a bank may very easily form their opinion of the bank from the way in which they are treated in a telephone conversation. The fact that the person with whom you are talking over the telephone cannot see your face makes it especially important that your words be selected carefully and that your general attitude be that of persuasive kindliness. No one should attempt to telephone concerning important business matters without planning carefully in advance what he is going to say.

A third essential is never to give out any information concerning the affairs of the bank. Business men

do not like to have their affairs known in great detail by their competitors or by other business men. The customer's relation with his bank is one of great confidence, similar to his relationship with his doctor or his lawyer. The men who represent banks must therefore be always on their guard to avoid giving confidential information into the hands of persons who should not receive it. Never answer a question concerning another business man's affairs which have been handled through your bank. Do not boast, either upon the street or at your home, concerning any transaction which you may have handled. Consider yourself the confidential trustee of the bank's information. Nothing will drive away a customer so quickly as to find out that he can secure information concerning others, because he will then suspect that others can secure information concerning him.

HOW MAY BANK MESSENGERS SECURE PERSONAL ADVANCEMENT?—Employees who are working for banks are being watched every day to see if they are going to develop into men of character and capacity. Every day's task is made the basis for judging the individual. Every day is a judgment day. Managers of banks see what takes place but seldom remark about it. The beginner in banking must not make the mistake of believing that his work is unimportant. It is well that a messenger be reminded of the fact that the banks in many large cities use old men for messengers, and that in country banks it is often the president or cashier who performs such work. The importance of the work must not be

judged by the amount of the salary. The salary is small because the beginner knows so little about his work. As soon as he is prepared for advancement his salary is increased. The individual who deserves and secures advancement must meet many requirements, but the more important are (a) honesty, (b) team play, and (c) development of individual capacity.

SPECIAL INSTRUCTIONS FOR MESSENGERS AND COLLECTORS.—(1) The head messenger will make a daily schedule for reporting each morning for work, lunch hour, etc. When the messengers are not out on trips they will be assigned to other work. Messengers must report immediately to the head messenger upon return from routes. If unable to report for work, telephone the chief clerk not later than the time you customarily arrive. If late, notify the head messenger upon arrival, so that you will not be reported as being absent. (2) The routes and times, of course, vary in different cities. Messengers must be sure that everything carried by them on their routes has been turned in before leaving at night, and must check up with the head messenger. Be sure that your wallet is supplied at all times with "notices," "dishonored check receipts," "cash envelopes" and "collection paid stamp." It is very important that you keep the date correct on your collection paid stamp. If the documents which you have stamped should be needed as proof in court, the exact date will be very necessary. The wallet should always be carried, and carried inconspicuously, even if it contains but one item.

Keep your hand on the wallet and then no one will be able to take it away from you without your knowing it.

(3) Before starting on your trip, be sure that you have located with accuracy all of the parties for whom you have documents. When you have a large number for one building, ride up in the elevator and present the documents from office to office as you run down from the top floor to the bottom.

(4) On entering an office for the purpose of making presentation of collections, etc., always bear in mind that you are a representative of your bank, and that your institution is constantly endeavoring to obtain new customers, and at the same time please all with whom the bank does business.

(5) Present all paper promptly. Drafts for acceptance or payment should always be presented to the drawee in person, and the collector should make every effort to find him. In case the drawee is absent a presentation of the draft at his place of business and the leaving of a notice may be sufficient, but whenever possible see the drawee in person.

(6) Present all firm or corporation documents at the cashier's office of the concern, and be careful to distinguish between documents which are obligations of the firm and others that are personal obligations of its officers or employees.

(7) If the document is refused payment or acceptance, the collector should try to get the interested party to write his reason on the back of the document itself and never on any papers which are attached to

it. In the event of his refusing to do so the collector should himself make the notation. No document should be returned to the collection teller without some notation of reasons. In the case of handling returned checks, notations should be made on the back of the "return slip" which is attached to the face of the check. These rules are of importance and should be followed for perfect work.

(8) In the case of non-payment or non-acceptance, leave plain and legible "notices," in all cases. Remember that the "notice" is left to safeguard your bank from a lawsuit for not having presented the paper. The notice is proof of presentation. If entrance to office or residence of drawee is locked, the notice may be left in the drawee's mail box or under the door.

(9) When a time draft is presented for acceptance, be sure that the party who accepts the same has the proper authority to do so. Acceptance should be signed as follows: When drawn on a partnership, it must be signed in the partnership name with the name of the partner signing it; if a corporation, it must be signed in the corporation name with the name of the official signing it, who must show his title after his name.

(10) Always remember either to get payment or bring back the item itself. Never leave an unpaid draft or note without first calling up the city collection department, draft teller or head messenger. Messengers should never intimate that they are tired of bringing the same collection over and over again

without results. The teller should, however, not allow collections to drag along too long, and after an item has been presented a certain number of times it is well to attach a notation saying that if such item is not paid "we will be obliged to return it to the source from which we received it." When you have for collection two or more drafts on one party who pays by one check, the amounts of the drafts that are paid must be listed on the back of the check. This facilitates tracing and checking up.

(11) Drafts are frequently paid by persons other than those on whom the same are drawn, but great care should be exercised in such cases in order to avoid liability for loss occurring to the rightful owner of goods released as collateral. Be sure to write on the back of the check the name of the party on whom the draft was drawn. When you are presenting a draft for payment, never allow anybody to take up and keep a bill of lading or other papers unless they pay the draft. When documents are attached to drafts presented for payment, observe closely the number of bills of lading and other documents, and be sure that the same number and kinds are returned to you if the draft is not paid. Do not permit a change to be made in the wording or meaning of any paper.

(12) Messengers may know which items are handled as cash and which are ordinary collections, but they should endeavor to get each paid. A messenger should never try to answer questions regarding matters with which he is not familiar. Any time such questions may be asked, promptly call the collection

teller by telephone and see that the customer is thoroughly informed before taking the collection back to the bank.

(13) When you receive currency in payment of items, be sure that you have the correct amount. When receiving cash, place the same in your "cash envelope" in the presence of the party giving the same to you, so that in case you should receive counterfeit or mutilated money you can prove that you received it from him. Seal the envelope and place the name of the payer, the date and your name on the outside. Always "line up" checks and currency that you have received, so that they are ready for quick reading or counting by those who receive them from you at the bank.

(14) Make it a rule to look over what is received from customers after presentation with the greatest care in order to avoid errors or trouble for other men in your bank who must handle the documents you have received. Be sure the checks received are signed. This is a simple illustration of this point. In fact, the messengers should be so well versed in the proper form and filling in of documents that they will observe at a glance when some defect needs correcting. Make it a rule to scan every document you handle and develop a capacity to detect such errors as absence of date or absence of signature.

(15) Never accept "part payments." When receiving a check be careful to note the following: (a) Check must be drawn on a local bank. Never accept a check drawn on any bank outside of your own city

until you have called up and secured permission from an officer. (b) Check must be payable to your own bank. In the absence of instructions to the contrary, the check, if not drawn on your own bank, must be certified. (c) The amount should be correct. (d) Check should be properly signed. (e) The amount in figures must agree with the written amount. (f) Never accept a draft which is drawn on any one else as payment for an item.

(16) If the party who usually signs the checks is not in, see that the draft is "OK'ed" by some responsible person who agrees to see that the draft is paid on the following presentation. Try to arrange matters so as to present items when the cashier is in. This may appear to be a small matter, but in reality it is of very great importance, and may be a way for making the relations of these firms and your bank more agreeable. If you have any special instructions, always explain what your instructions are, and say that you cannot do anything different without permission from the person who gave you your instructions.

(17) The messenger should be especially careful in the handling of papers and documents so that he will not lose them. The loss of a document may lay the bank open to a lawsuit and cause it to suffer a considerable loss. For example, the loss of a payment upon a real estate option, or a failure to deliver a bill of lading for perishable goods, would give a customer just cause for complaint. The representative of a bank should cultivate the habit of making a mental note of all documents handed out and received in order

to detect detachments that customers may have attempted to make.

(18) In handling checks returned for indorsement, always see that each check is indorsed exactly in the form in which the name of the payee appears on the check. If the payee is a partnership, the indorsement must be made by one of the partners and show the partnership name. If the payee is a corporation, the indorsement must show the corporation name and the name of the official of the corporation signing, together with his title.

(19) "Dishonored check receipts," given to the bank by its customer for an item which has to be left a day or two in order to permit some necessary correction, may be used only in the following cases:

(a) When the check has not been indorsed.
(b) When the check is not properly indorsed.
(c) When the check is not countersigned.
(d) When the check is not signed.
(e) When the amount is to be guaranteed.
(f) When an alteration is to be guaranteed.

The bank holds these receipts instead of charging the amount of the item to the customer's account.

(20) The messenger who is interested in the growth of his own bank will notice all new firms which are just starting in business, or old firms which are moving to a new location, and will report such facts to the head messenger. Credit will be given for any new accounts that may be brought to the bank in this way.

(21) Messengers should understand that their

time belongs to the bank from the moment when they arrive in the morning until they leave at night. Spare moments should be used for improving knowledge and training with the equipment of the bank. Messengers should not do personal errands for any one except during the noon hour or outside of banking hours. If it is necessary for a messenger to have a short leave of absence, such, for instance, as to go to a dentist, leave may be secured by making request to the department head or to an officer.

(22) Take nothing for granted. Investigate anything that you do not thoroughly understand.

HONESTY AS AN ASSET.—The most important quality that lies at the very foundation of all business, and more especially of the banking business, is honesty. If a man is not honest, first of all with himself and next with those with whom he comes in contact, it is quite impossible for him effectively to gain the confidence that is an absolute requisite in influencing people to entrust the bank with their funds, which, next to life and character, are the most valuable possessions of the greater part of mankind. Honesty includes truthfulness, sincerity, and an absence of every pretension to appear what one is not. Bankers unhesitatingly agree that the policy of honesty is for them an absolute necessity, whatever it may be in any other business; and the more robust the honesty, the stronger effect it is likely to have in producing confidence, which is the soul of the banking business. However honest we may be, we must not assume that everybody else is honest. One who is

blind to the minutest signs of honesty or dishonesty can never be a successful credit man. No man ever began a career of theft by stealing a large sum of money. It is the business of the credit man who is judging business to give full weight to the small events which are forming the character and future of the individual. The young man who is seeking a successful career, either in business or in banking, should never permit a single exception to his determination to maintain the strictest standards of honesty and truthfulness.

TEAM PLAY.—Team play is very important in the banking business. Unless each member of the team does his duty the whole team cannot win the game. Failure on the part of one employee to do his duty in the bank may keep as many as three hundred men from performing their duty at the proper time. Every team has a captain who gives the orders which the members of the team obey. Intelligent obedience and willingness to take orders are important requirements for a good player of the game. Beginners in the banking business must look upon orders and instructions as commands from the team captain. Unless the bank employee makes up his mind to do all in his power to make the team—his bank—a success, he is unfitted for advancement; and it will not take his superiors long to find it out. Not only is team play necessary, but the individual member of the team must develop his own strength as much as possible. Too much emphasis cannot be laid upon the importance of clean living. A man cannot advance rapidly unless

he has good health, and the way to secure good health is to avoid late hours and to secure adequate exercise outside of banking hours. Physical health is the best foundation for mental development. In addition to health, the bank man must develop his knowledge through education. He should take every opportunity that is offered to him to study his occupation or to study the business world in which he lives. Knowledge is power. It should be remembered that self-education may go on both in school and outside of school. Much knowledge and discipline may be acquired in spare moments by reading, conversation, or even by thinking, but such ways and means cannot be successfully substituted for orthodox methods of instruction.

SYSTEM IN EDUCATION.—Self-education without guidance is an interesting thing to read about in the biographies of Benjamin Franklin and Abraham Lincoln, but average persons are not equal to it. As Ben Jonson put it, "Very few men are wise of their own counsel, or learned by their own teaching, for he that is taught only by himself has a fool for a master." What most students need is a teacher to direct and encourage them. Few get much benefit from text-books or lectures without collateral examinations. Reading at random is a delusion and a snare. Lecture schemes that purport to give instruction to students without requiring work by students themselves are educational counterfeits. Text literature and lectures are educational food. Examinations are the process of digestion. The mind as well as the

body requires exercise, and the student who ducks or dodges examination is like the dyspeptic who bolts his food or the athlete who sidesteps his training. The fact should be appreciated that examination is something more than measurement and certification. Students who realize that they are to be examined pay closer attention to their lessons. The process of examination also corrects omissions and misconceptions otherwise inevitable in any system of study. Examination is a fundamental necessity in practical education and not a scholastic superfluity as some persons suppose or pretend to suppose. "Learning by study must be won; 'twas ne'er entailed from sire to son."

DEVELOPMENT OF INDIVIDUAL CAPACITY.—Every bank man should make a thorough study of his own department. He should endeavor to find ways for improving the work that is being done within his own department. Those who can suggest improvements will always receive favorable mention when advancements are being considered. But it must be remembered that these suggestions are welcomed only when given to the proper person, at the proper time, and in the proper way. The work of no department will run smoothly or efficiently unless the workers are punctual and accurate. Punctuality is demanded because the work of many may depend upon the work of one or two. Accuracy is demanded in order to avoid unnecessary labor for others who are compelled to balance with you. Particularly in the handling of all documents and in the writing of all

letters and numerals, accuracy is important. In the writing of numerals good penmanship is a prerequisite. In developing one's individual character and ability, the saving of some part of the wages on each pay day is important. Unless you can save a little you will not be in a position to take advantage of opportunities that are offered you later in life which require capital. The man who cannot discipline himself by compelling himself to save a little is hardly fitted to discipline other men in other matters. Also, a habit of regular saving will help a bank man out of difficulties, such as borrowing, and will also keep him free from worry, which is known to be a source of personal inefficiency. Above all else, it is necessary for the ambitious bank man to assume responsibility. This means to take his task seriously and to devote to it his full energy and attention. Men cannot advance without assuming responsibility. What this means may be made clear in several ways. First, the man who assumes responsibility prepares himself for the job just above his present job, after he has mastered his present job. Then, when illness or vacancy occurs, the work of the bank can go forward and he can be advanced. Second, the man who assumes responsibility never relies on some superior officer to see that a thing is correct. He finds the error himself, or assures himself that everything is correct and in order. When you are asked to check some figures, or to prove some figures, assume responsibility and locate the difficulty. Proving is not performed for the purpose of providing

clerks with work, but to check up a difference between the bank departments or to correct some customer's error. Third, learn the art of concentration. This means to become so interested in the task at hand and so determined to see it done correctly that all else is for the time forgotten.

CHAPTER II

Bank Departments and Operations

DUTIES AND RESPONSIBILITIES. — Subject to governmental authority—National or State, according to its charter—the management of any bank is vested in its board of directors. Such directors are elected by the stockholders. The directors elect the officers, president, vice-president, cashier and assistant cashier, who are the executive heads of the institution and are charged with the duty of administering its affairs. The number of vice-presidents and assistant cashiers depends upon the size of the bank. The directors may also appoint committees —such as a discount committee, an executive committee, and an examination committee—that the business of the bank may seem to require. According to the character of their duties and responsibilities, bank officers and employees may be classified as (1) executives, (2) tellers, (3) bookkeepers. Whenever it becomes necessary, on account of volume of business, to divide the work in a bank into divisions, each employing a group of clerks, such divisions are organized into departments each having a department head, who is usually a teller, a head bookkeeper, or perhaps a junior officer. In the very large banks the executive staff is itself organized into groups, and there may be a vice-president and one or two assistant cashiers in charge of each important department. The work of a department in a large bank is nothing more nor less

than the work of a single man in a small bank apportioned among several men. The departments into which a medium sized bank is ordinarily divided are as follows:

(1) Receiving Teller's Department (Teller)—Receives, receipts for and proves deposits, distributes checks to bookkeepers and other departments, prepares exchanges for clearing houses, and turns cash over to the paying teller at end of day.

(2) Transit Department (Teller)—The transit department may be a subdivision of the receiving teller's department and was formerly known by other terms, such as correspondence, foreign check, miscellaneous check or country check department. This department assorts checks and other cash items payable out of town, indorses them and lists them on letters addressed to other banks. It gives totals of outgoing or remittance letters to general ledger bookkeeper at end of day. This department often keeps the records of exchange charged on out-of-town checks, and of delayed credits on interest balances made necessary because of uncollected funds deposited.

(3) Paying Teller's Department (Teller)—Pays or certifies checks, is in charge of the signature book or cards bearing the authorized signatures of all depositors, ships currency, is in charge of the vault cash, and makes up payrolls.

(4) Note Teller's Department (Teller)—Collects notes and drafts due at the bank or elsewhere in the city. It is usually in charge of the runners or mes-

senger department, which is a subdivision, and it usually receives deposits made by other banks, and may perform the functions of a mail teller.

(5) Collection Department (Teller)—Collects notes, drafts and other "time" items when payable out of town, and credits accounts of depositors when collections are advised paid.

(6) Loan or Discount Department (Executive)—Receives notes submitted for discount or makes loans, figures discount and interest, and has charge of collateral securing loans.

(7) Credit Department (Executive)—Secures and collects information relating to borrowers, checks statements submitted by them, and is in charge of credit files, which contain information as to the reliability, business habits and financial strength of borrowers.

(8) Analysis or Statistical Department (Executive)—This department is usually found in city banks. It analyzes the accounts of depositors to determine which are profitable and which are losing accounts, makes monthly reports to officers, is in charge of statistics relating to the bank's accounts and matters in which the bank is particularly interested. It is closely related to the transit department.

(9) General Ledger Department (Bookkeepers)—Keeps the general or control accounts of the bank, and makes up the bank's statement of condition.

(10) Country Bank Account Department (Bookkeepers)—This department is confined to city banks. It keeps the accounts of other banks.

(11) Individual Ledger Department (Bookkeepers)—Keeps the records of the balances of individual depositors and figures interest on accounts. It may be subdivided as to kind of accounts (savings, dealers), in addition to ordinary alphabetical division, and may balance pass-books or there may be a separate department for this purpose using the statement system.

(12) Auditor's Department (Executive)—This department is responsible for the settlement of the various departments, reconciles the accounts with other banks, and certifies interest calculations.

In addition to these departments, there are others to be found either in very large banks or even in small banks operating special features. Among the first might be noted the coupon department, exchange department, purchasing department, filing department, interest department, new business department, etc., all of which terms are self-explanatory. Among special departments may be mentioned the foreign exchange department, the bond department, safety deposit department, special deposit department (securities and valuables stored with the bank, but not placed in private boxes). In trust companies there is the trust department, which may have a complete independent organization of its own, with officers, bookkeepers and other clerks. This department has charge of the trust accounts.

RECEIVING TELLER'S DEPARTMENT.—A bank teller is a senior clerk who deals with the bank's customers—chiefly depositors—in daily trans-

actions across the counter. In very small banks one man will act both as receiving teller and paying teller, as well as note teller and collection teller; and while he is the teller, he may also be an official. In many large banks, particularly in the West, an arbitrary alphabetical division is made of the accounts of the bank and each group is treated as a separate unit. Under this plan, it is as if there were several small banks operating under one roof. Each teller acts as both paying and receiving teller for his own group, to which bookkeepers are also assigned. This plan has several advantages. The depositors are not often held up in a single long line on busy days; the teller is not put to the strain of knowing the faces and signatures of all the depositors; the money can be handled more easily, and if differences should occur they are confined within limits. Whether the bank employs a separate receiving teller or not, there are certain duties and responsibilities peculiar to the position. The principal business of the receiving teller is to receive, receipt for, prove and distribute the contents of deposits. Responsibility of no mean order rests upon the teller, because he acts as the agent of the bank in the relation established between the depositor and the institution. He must be on his guard at all times. His first care is to assure himself that the deposit is intended for his bank. Many people have two or more bank accounts and sometimes confuse the pass-books. The amount of deposit is entered in the pass-book as a receipt. In a savings bank the pass-book is more than a receipt—it is a voucher or

evidence of contract between the bank and the depositor. If the bank is one that deals with a large number of depositors who make deposits of any size or quantity of checks, the teller will merely satisfy himself that the checks are indorsed by the bank's customer, enter the amount in the pass-book and examine or prove the ticket later, although it is always customary to count the cash deposited before the depositor leaves the window. This prevents a long line of depositors from becoming impatient of delay. If errors are found they are reported by telephone, and since the bank will have been careful in the first place as to whom it accepts as depositors, there is but slight risk that an error may not be satisfactorily adjusted at the end of the day, without loss to the bank. But whether it is done first or last, by the teller himself or by his assistants, each deposit is subjected to the same process of proving. When the cash is counted, care is taken that there are no counterfeit bills or coins included. The checks are examined to see that they are properly listed and indorsed. In cities where the banks charge their customers exchange on out-of-town checks, the receiving teller, or more properly the transit department, sees to it that proper amount of exchange is recorded. As for checks on his own bank that may be deposited, the receiving teller is governed by the same rules that apply to the paying teller; that is, he must know the signature and also be certain that the check is "good." Finally, he proves or tests the addition of the ticket. The total is listed on his blotter or scratcher and the ticket is then given to the book-

keeper. The various items that make up the deposit are then ready for distribution. The checks on the bank itself go to the bookkeepers; checks on other banks in the same town go either to the clerks making up the exchanges for the clearing house or to the runners' or messengers' department for presentation. All this work of proving and distribution is usually done by the batch or block (sometimes called "split-proof" or "run") system.

TRANSIT DEPARTMENT.—Out-of-town cash checks go to the "transit department," where they are assorted as to place payable and forwarded for collection and returns, probably through the Federal Reserve bank if the bank in question belongs to the System. If the bank is small, the receiving teller may handle all these various checks in his own department, but ordinarily they will be distributed to other departments which are really subdivisions of the receiving teller's department. The most important of these departments in point of size and responsibility is the transit department. Let us consider such a department in a city bank. It so happens that out-of-town or "country checks" can be handled and collected more economically in quantities, hence country banks and many city trust and savings institutions send these items through the Federal Reserve bank or in some cases to a city commercial bank which may make a specialty of collecting them. The receiving teller, theoretically at least, will receive these items through the mail, although when so deposited they actually do not leave the hands of the transit clerks

who open and prove the incoming remittances or deposits. The teller may add the figures of the mail deposits to those of counter or "window" deposits. The transit clerks assort the checks geographically, placing together checks that are payable in the same part of the State or country. They are then indorsed with the bank's stamp and listed on letters addressed to the bank's correspondents. At the end of the day the totals of the outgoing letters must equal the total of the checks which are charged to the transit department by the receiving teller. The bookkeeper charges the total of each individual outgoing letter to the bank to which sent, and the grand total increases the general ledger item "due from banks" by that amount. Before the adoption of the Federal Reserve System, the operations of the transit department were highly important, and transit arrangements played a large part in the relations which banks had with each other. The Federal Reserve banks can now collect so many checks at par that these former relations have been largely changed and are of secondary importance. The law requires a bank to use reasonable care in selecting a responsible correspondent, and to forward items promptly with "due diligence." It is, of course, important that checks be sent forward promptly and accurately, and care is necessary. For instance, a bank might cause loss to its depositor by sending a check payable in Portland, Maine, out to Portland, Oregon, by mistake. The "due from banks" ledger largely represents outstanding transit items in the process of collection and is charged with the amounts

of items sent and credited with remittances in payment. It is often termed the collection ledger and were a bank to stop sending out items for collection this entire ledger would probably have all charges liquidated in a few days.

RECEIVING TELLER'S SETTLEMENT.—The receiving teller's settlement is very simple. He begins the day without any funds. As deposits come in he lists them as to totals on a scratcher, writing the name of the depositor opposite the amount, or, under a more modern system, includes this record on his block proof. At the end of the day the totals of the checks he has received and charged to the different departments of the bank according to place of payment, plus the cash he holds, must equal the total deposits for that day. Settlement being made, he then turns his cash over to the paying teller, who usually does not count it until the next morning. In many banks the receiving teller acts as the "clearing house" for the other departments. For instance, checks on other institutions will be cashed by the paying teller, or given to the loan clerk for payment of notes, or paid to the loan clerk for loans, or the bank's draft on another city may be bought with a personal check. All these departments may give over such receipts to the receiving teller, who adds the totals to his individual deposits in making his settlement. Charge and credit tickets would be handled similarly. The student should keep it clearly in mind that such work is incidental to the business, and it does not follow that because it may be the note teller,

paying teller or some other clerk who does this internal accounting for various kinds of receipts, that his bank is "different."

"BATCH" OR "BLOCK" SYSTEM.—The general adoption of the "run," "batch," "split proof," or "block" system has been a tremendous time-saver in the accounting done by the receiving teller, and this plan is now in operation in all modern banks. Under this system the correctness of the deposit ticket is not tested as to listing or addition when received. Instead, the ticket is handed to an assistant, who assorts the items in groups; for example, checks on us, clearing house checks, non-clearing local checks, out-

TYPICAL DISTRIBUTION SHEET USED IN THE "BLOCK" SYSTEM

Country Checks	City Checks	Checks on this bank	Cash
$162.29	$29.16	$110.28	$116.22
15.27	4.22	92.15	
222.12	.87	47.16	
83.33	926.12	523.06	
1,000.00		10.00	
	$960.37		
$1,483.01		$782.65	
	Recapitulation	Deposits	Depositors
	$1,483.01	$1,826.10	Smith & Co.
	960.37	4.22	John Doe
	782.65	1,511.93	S. Williams
	116.22		
	$3,342.25	$3,342.25	

of-town checks and money. Further division may be made of any of these groups if the size of the bank warrants. The items are then listed on an adding machine in parallel columns, each of which is headed by the name of the department which will receive the checks. The totals are then "picked up" or recapitulated, and must agree with the total of the ticket, which is listed in another column on the sheet and the name of the depositor added opposite. If the deposits are small, several are combined on one sheet. At the end of the day a total is made of each column on all the sheets or "blocks," and these being recapitulated must equal the total deposits, which is the teller's proof. The advantages of this plan are many. No effort or time is lost in the original proof of the ticket. As the items are listed in separate columns, a total is secured which not only proves the ticket but gives separate totals which other departments may use to prove their work. If differences occur they are segregated into groups and thus can be more easily located. The block system can also be used in many other departments, such as the transit, outgoing clearings and incoming clearings, whenever the work of any department involves the handling of a sufficient number of checks, deposit tickets, or charge or credit tickets.

PAYING TELLER'S DEPARTMENT.—The paying teller is not necessarily the cashier, although the public sometimes thinks that he is. While the cashier in a small bank is generally paying teller, this is never true in a larger bank. The paying teller's

duties are the direct opposite of the receiving teller's. It is often said that the paying teller has the most important position in the bank because on him falls the responsibility of paying out the bank's funds. It is not questioning the measure of his responsibility to point out that it is not the bank's funds but the depositors' money that he is called upon to pay. If this money is paid to the wrong person the bank is liable to pay it again to the proper payee, and if the teller pays out some of the bank's money as well as the depositor's—in other words, permits an overdraft —then again the bank loses. This teller, therefore, stands between the bank and loss. Even more than the receiving teller, his personality, his mental and physical make-up must leave nothing to be desired. He must be courteous, patient, alert, well informed as to business methods in general, keen and resourceful. Above all, the teller, whether paying or receiving, must know his own bank thoroughly. Tellers almost invariably are graduates of many years' experience in the bank.

PAYING CHECKS.—When a check is presented for payment at the window the teller must be assured (1) that the signature of the drawer is genuine; (2) that the person presenting the check is the payee or, if the check has more than one indorsement, that such indorsements are all present and the person who asks payment is the last indorser; (3) that the balance of the drawer is sufficient to cover the amount of the check; (4) that the check is not dated ahead or very old; (5) that there is no order

from the drawer on file to stop payment; and (6) that the check has not been raised or altered. When a check is presented for certification the paying teller takes the same precautions with respect to the genuineness of the signature, balance of the drawer, date of check, and stop-payment as if the check were presented for payment. The matter of indorsement will be taken care of when the certified check is finally presented for payment. Checks are certified by writing or stamping across the face "certified" or "good when properly indorsed." The date and name of the bank, with the signature of an officer or teller, is added. The account of the drawer is charged at once and the effect is that the bank thereupon assumes the liability for the payment of the check. Sometimes a country bank will certify a check and at the same time make it payable at the banking house of its city correspondent.

VAULT CASH.—The paying teller is the guardian of the bank's funds. He usually has custody of the vault cash. He sees that the supply of money in various denominations is at all times sufficient for the needs of the customers and is properly arranged for quick handling. Money paid out is counted twice before leaving his hands, but in order to avoid one handling while the line before his window waits, he will have bills crossed in piles, or under bands, containing so many one's, two's or five's as the case may be. Coins are neatly piled or rolled in sealed wrappers. This work is done by assistants during the day. The bulk of the vault cash is seldom disturbed. It is usually kept in an inner compartment requiring

a duplicate key held by an officer. The teller has a record of the total of this money and of the denominations into which it is divided. The amount of counter or window cash which is brought from the vault to the cage each day is listed in the settlement book, and with this money the teller begins the day's work. During the entire day he is paying out cash for checks, or shipping it to out-of-town correspondents of the bank upon their written or telegraphic order. His settlement at the end of the day is even more simple than the receiving teller's. The amount of the checks he has cashed and handed to the bookkeepers (or, if they are payable at other banks, to the receiving teller), plus the amount of cash on hand, must equal the amount with which he began the day. As soon as he has settled, he adds to his own cash the cash which is handed him by the receiving and other tellers, and this sum is then carried forward to begin the next day's work. The settlement of a teller who is both paying and receiving teller is a combination of the two. The teller begins the day with a cash balance on hand. He adds to this amount the deposits, receipts for interest on loans, drafts sold, exchange, etc., received during the day. At the close of business the total of his cash on hand plus checks for other banks and checks on his own bank (which have been cashed) must equal his total receipts.

NOTE TELLER'S DEPARTMENT.—Drafts on individuals must be presented to the drawee, either for payment or acceptance, and notes must be at the place where they were made payable on the day they

are due. Banks undertake to collect these items for their customers and pass the proceeds to the credit of their depositors. This function is incidental to commercial banking, the bank acting as the agent of the owner of the paper to be collected. In small banks it is not unusual to see a brass sign displayed at the receiving teller's window reading "pay notes here." Although they are not required to do so by law, many banks give notice to the makers of notes or the drawees of drafts that they hold the note or draft awaiting payment, and to some one of the tellers or clerks is assigned the duty of receiving payment. As the bank grows, a separate department is organized for this purpose and a note teller is appointed. He is usually in charge of the messengers or runners. Instead of sending out notices the bank may render its customers better service by having its messengers present the items for payment at the place of business of the payer. Of course, it is legally bound to do this if the notes are payable there instead of at the bank. The messengers also present checks for payment at banks not represented in the clearing house, collect coupons and return unpaid checks to depositors. It is necessary that they should exercise great care in all these transactions, since for the time being they are the accredited representatives of the bank and the bank is bound by their actions. The note teller or collection clerk keeps a register record of all the "time" items that are placed in his hands for collection. This record consists of the name of the payer, the indorser, or the owner of the item for whom

the bank is making collection, the date of maturity, the amount, and whether the item is to be protested or not if unpaid. There may be other instructions, as, for example, a request for telegraphic advice of payment. A column is used to record the final disposition of the item, which in banking parlance is called "fate." Usually a separate register is used for drafts, because they may require particular care. They are often accompanied by bills of lading or other documents that are to be delivered only when the drawee has paid the draft. Drafts are often made payable "on arrival of goods," and the note teller keeps in touch with the drawee so that there may be no unreasonable delay after the goods covered by the draft have reached their destination. In making his proof the note teller enters on one side of a sheet the name and amount of each note, draft or check which is to be collected on that day. As the items are paid he extends the amount in another column and opposite he makes a memo of the funds he has received. This memo is technically called the "satisfaction" of that particular entry. The total of the items thus "satisfied" at the end of the day must be equalled by the cash and checks which the note teller hands over to the paying and receiving tellers. The note teller has miscellaneous functions which probably differ in most banks. When a bank has a note teller's department and is in doubt which particular department should handle a transaction it seems always to be assigned to the note teller. He is often in charge of the bank messengers, receives bank deposits which come in

over the counter, handles telegraphic transfers, and often issues letters of advice and certificates of deposit, the former being formal, officially signed acknowledgments of funds received and the instructions accompanying them.

COLLECTION DEPARTMENT.—A subdivision of the note teller's department is the collection department, although some banks are organized with the latter as a subdivision of the transit department. The collection teller, as the head of the department may be known, is charged with the collection of notes and drafts payable out of town and perhaps in the city, too. These items cannot be listed with checks and cash items, but are entered on separate sheets. The same methods of bookkeeping and collection apply as with out-of-town cash items, except that credits and debits are made only upon receipt of advice that the items are paid. Checks and cash items, on the other hand, are credited to the depositors on the day of deposit, subject, of course, to final payment. That is, if the items are "not good" they will be returned and the account of the depositor will be charged. This plan is adopted for mutual convenience made necessary by the great numbers of checks that are deposited daily in every bank. If every separate item required a special advice of payment, and would be credited only upon receipt of such advice, banks would be compelled to increase the number of their clerks enormously. Out-of-town collections are governed by the same rules as city collections. The collection clerk or teller makes a

register record of the name of the payer, the place payable, the indorser, and the amount, together with other instructions. Usually this record is entered on slips made with carbon copies, and the slips are filed in drawers or cases until advice is received. If the bank is notified by its bank correspondent that an item has been paid, the slip is taken out and marked "Paid." It is then handed to the bookkeepers. Using the slip as a debit or credit memorandum, the account of the depositor is credited and the account of the bank to which the item was sent is debited. The collection teller is responsible for the items entrusted to his care. He must see to it that notes reach the town where they are payable before maturity, that drafts are sent to responsible banks for collection, that all instructions sent with the items are fully obeyed and that correct and prompt advice of payment or dishonor is forwarded.

LOAN OR DISCOUNT DEPARTMENT.—Loans and discounts are handled by an officer in small banks, but in larger institutions a separate department has charge of the records and the mechanical details of the work. The discount teller gives the borrower credit for the amount of approved loans by using cashier's checks for out-of-town borrowers and ordinary credit slips for his own depositors. In a sense, then, he is a receiving teller of a special form. The actual loaning of the bank's money is always done by an officer of the institution, regardless of its size or kind.

CREDIT DEPARTMENT.—In the large banks

it would be impractical, if not impossible, for the cashier, in addition to his other duties, to keep track of every local borrower and the bank may employ a "credit man," who specializes in credits. The next step is the organization of a credit department, usually in charge of one of the officers of the bank. The credit department collects and files every available bit of information concerning people or firms that borrow money. This material consists of financial reports, press clippings, personal interviews, statements of condition and, in fact, every item that has even a remote bearing upon the standing of borrowers. It requires technical training of a high order properly to classify and analyze this data, but the fundamental idea is to acquire the same knowledge of the true facts that a country bank cashier has with respect to his neighbor. A simple but practical definition of credit is "the ability to buy with a promise to pay," in other words, to obtain present value for a promise to pay in the future. He who has "good credit" can command either goods or money because of the faith or belief that others have in his promise. The word "credit" is derived from the Latin "credo." It is not only essential that the borrower have the ability to pay his note when it is due—he must also have the desire or inclination to pay. Credit is primarily based upon confidence which has as its basis three things. First and foremost is character, the "moral risk" which is indispensable in every case. Then comes capacity, the borrower's ability and business methods. Thirdly, we have capital which, while essential, is dis-

tinctly secondary to character and capacity, a combination which is very apt to attract capital. The banker, naturally, in selecting his customers knows that he may be asked to extend credit. He first satisfies himself that the factors of character and capacity are such as to justify confidence. This information is obtained from personal knowledge of the borrower, and by information obtained through other banks, through "the trade" and by agency reports. Trade inquiries are directed to people selling goods to and competitors of the borrower. If all this information is satisfactory, the capital factor is studied in the borrower's financial statement of condition, which balance sheet should be taken off at regular intervals. It must show a sufficiently "liquid" position to satisfy the banker that his loan can and will be repaid when due. To show this, there must be an ample margin of quick assets (those readily convertible into cash) over current liabilities to enable the borrower, despite any natural shrinkage of values in liquidation, readily to meet his obligations. This ratio is often called the 2 to 1 ratio, but differs in proportion according to the character of the business in question. The ability to loan money wisely and to those who are entitled to it —in short, the ability to distinguish between a safe risk and an unsafe one—is the quality that marks the good banker.

BASIC BOOKS.—The books used by a bank are of various kinds and their purpose is indicated by name.

(1) A "ledger" is a book used to keep a record

of balances. To "post" means to enter in the proper columns either the debits or credits on the ledger, and the difference between them represents the balance either due by or to the bank. From a strict accounting standpoint, we should not say enter, list or post but instead should use the words "credit" or "charge" as the case may be. Most banks are doing away with bound books, especially ledgers, and substituting cards or loose leaves. This plan enables several men to work on the same records, which would be impossible if they were bound in a single book. Alphabetical division is also easier of adjustment and "inactive" accounts can be readily separated from "active" accounts. Totals of balances can be listed upon adding machines for proof more easily from loose sheets than from bound books. But whether bound or not, records of balances are kept upon ledgers.

(2) A "journal" is a book in which daily transactions are listed in regular order as to accounts, and the total debit or credit is then posted on the ledgers. Journals, too, may be loose sheets, so that they can be inserted in the carriage of an adding machine; indeed, machines have been invented upon which both debits and credits may be written and the machine will automatically subtract or add and print the new balance. The journal, then, is merely a subdivision of the ledger.

GENERAL LEDGER DEPARTMENT.—The general ledger bookkeeper is the bookkeeper of the bank. It may be said that all other books and records are a part of the general ledger. Every transaction

of whatever nature gravitates to this ledger. The keeper of the general ledger may be said to be the dealer in wholesale figures; the other clerks are the retailers. He has to do with totals of completed transactions; the tellers and other bookkeepers are concerned with the details. The general ledger is really an assembling plant where all the work of the various parts of the bank is brought together and made into the complete total. The accounts on the general ledger consist of the items in the bank's statement of condition, known as the "control accounts." The general ledger bookkeeper makes his postings at the end of the day or the first thing in the morning before the bank has opened for business. No matter how large the bank may be, this posting of debit and credit totals takes but very little time, and in small banks the cashier may do this work. More often the clerk who "runs" the individual ledger is also responsible for the general ledger. In large banks the head bookkeeper (as he is sometimes called) is given additional duties and responsibilities. He makes the daily calculation of reserve and keeps the record of the earnings and similar data.

COUNTRY BANK DEPARTMENT. — The general bookkeeper often has charge of the accounts with other banks. These are kept just as the individual accounts are and are subject to the same kinds of debits and credits. In addition to the credit accounts, or those accounts which represent the balances of other banks, there are usually many debit balances, which in total are carried on the general ledger as

"due from banks." As each day's letters containing checks are sent to correspondent banks, the amounts of such checks are debited to these banks. As remittances are received in payment the accounts are credited. A daily record is kept of each account, known either as the "statement" or "account current," and at the end of the month this statement is ruled up and forwarded to the correspondent banks for "reconcilement." Since there are letters in transit, drafts not yet paid, collection credits, returned items and other entries constantly in the mail between two banks that do business with each other, this reconcilement is necessary if the accounts are to be settled as of any given day. It is very interesting work and an example of the method used is given. We will assume that a city bank has sent a monthly statement to a country bank showing the actual debits and credits for the month and the balance due the country bank. The country bank would then fill out a reconcilement blank about as shown in the illustration and mail it to the city bank. The purpose of the reconcilement, as will be seen, is to account for the differences between the balances shown on the books of the two banks on the same date. Errors or omissions of debit or credit entries are then adjusted.

INDIVIDUAL LEDGER DEPARTMENT.—The individual ledgers are the books upon which the detail records of the deposits are kept. Such records consist of either debits or credits and the balance. Modern ledgers allow three columns to each account, one for debits, one for credits and one for the balance,

TYPICAL RECEIVING TELLER'S PROOF

DEBIT		CREDIT	
		Date	
Transit Department	$52,188.17	Deposits	
Self Checks, Individual A-K	32,111.18	Individual A-K	$150,218.09
" " Ledger L-Z	46,350.89	" L-Z	142,111.20
" " General Ledger	24,689.17	Banks	40,936.20
Paid to		Received from	
Paying Teller	51,357.91	Paying Teller	972.17
Note Teller	5,000.00	Note Teller	1,234.16
Mail Teller	.....	Mail Teller	846.35
City Collection Dept	12,380.00	Exchange Teller (Drafts Sold)	2,500.00
Clearing House Exchanges	114,790.85	City Collection Dept	50.00
Total	$338,868.17	Total	$338,868.17

TYPICAL PAYING TELLER'S PROOF

		(Itemized as to denominations)	
From yesterday's settlement:			
Vault cash		$58,222.00	
Paying teller's cash		41,922.16	
Cash from receiving teller		40,014.57	
Cash from note teller		12,103.10	
Clearing house credit balance		72,103.15	
Total receipts			$224,364.98
Charged to ledger, A to K		$44,622.10	
Charged to ledger, L to Z		31,203.15	
Charged to general ledger (bank accounts, etc.)		20,403.16	
Checks to receiving teller		4,322.79	100,551.20
Cash balance			$123,813.78
Vault Cash	$64,500.00		
(Changes in this item during the day might be noted on a separate sheet)			
Gold	10,500.00		
Legal tenders	24,250.00		
National bank notes	7,550.00		
Gold certificates	5,000.00		
Silver certificates	4,772.00		
Silver dollars	6,278.00		
Fractional	963.78		
To next settlement			$123,813.78

although many banks still use the two-column ledger, the credits being posted beneath the balance, which is extended in ink or perhaps only in pencil. Bound ledgers are gradually giving way to loose sheets or cards, each account having a separate leaf or card. This plan is much more convenient, since closed or "dead" accounts can be eliminated and inactive accounts can be kept separate from those that are active. It is also easier to make alphabetical divisions of the ledgers when an increase of work makes it necessary. While there are several bookkeeping systems employed by banks, they are all alike in principle, and vary only because the business of the customers warrants different labor-saving methods on the part of the bank. For example, active commercial accounts require considerable posting of checks and deposit tickets daily and the balances are constantly changing. Savings banks, on the other hand, deal with a class of people who make deposits only at irregular intervals and withdrawals are also infrequent. A more complete description will be made of both the General and Individual Ledgers in a subsequent chapter.

CHAPTER III

Deposits and Checks

WHAT IS A DEPOSIT?—A "deposit" is the right to receive money from a bank. Or it is the obligation of a bank to pay money.

DEPOSIT BOOKS AND DUPLICATE SLIPS.—When a customer opens an account with a bank he is given a deposit book, known also as a "pass book" or "bank book." Every time he makes a deposit (by putting in cash or discounting or in any other way) the total is entered in the pass book. The pass book is the depositor's evidence of deposit, and is in most banks not "balanced," a statement of the account being rendered at regular intervals instead. In a savings bank the book contains the bank's account with the depositor, has debit and credit sides, and withdrawals are entered as well as deposits.

DEPOSIT TICKETS.—Deposit tickets are the slips depositors are required to make out showing the respective amounts of bills, coin, checks, etc., that are deposited. They should always be made out by the depositor, and never by bank officials, except in unusual cases, such as inability. They are kept by the banks and, if any dispute arises as to how much was deposited, these slips, in the handwriting of the depositor, are of great value. Banks frequently print in the pass books notice of the terms on which deposits are received and the same terms should also be

placed on the deposit slips. This statement usually is merely a disclaimer of liability on items deposited that are payable by other banks. This is done to notify the depositor that while the bank has acknowledged its indebtedness to him, it is subject to the

DEPOSIT TICKET WITH DISCLAIMER

FOR DEPOSIT BY

.....

—WITH—

Institute National Bank,

RICHMOND, VA., 192

The depositor using this ticket hereby agrees that all items payable outside of Richmond shall be forwarded by this bank as agent for the depositor at the depositor's risk; that this bank shall not be responsible for negligence, default or failure of sub-agents, nor for losses in the mails; that this bank shall have the right to charge back to the depositor's account any item for which actual payment is not received; that items may be sent direct to the banks on which drawn without waiving any of the above conditions, and that items on Richmond are credited subject to actual payment through the Richmond Clearing House.

	Dollars	Cents
CURRENCY.....		
COIN.....		
CHECKS AND DRAFTS.		

qualification that all checks, notes and drafts presented are subject to the bank's ability to collect on them. For instance, A deposits B's check for $500 with the bank. The bank enters A as having made a $500 deposit. But if the bank is unable to collect the check it will not be liable to A for the $500 with

DEPOSIT TICKET, SIMPLE FORM

INSTITUTE STATE BANK
OF PITTSBURGH
DEPOSIT MADE BY

_____

_____

_____ 192

	Dollars	Cents
CURRENCY		
SILVER		
GOLD		
CHECKS AS FOLLOWS In Pittsburgh, name the Bank; out of town, name the place Use transit numbers preferably		

SIGNATURE CARD FOR INDIVIDUALS

AUTHORIZED SIGNATURE OF INDIVIDUAL

.....

For the
INSTITUTE NATIONAL BANK OF STATETOWN

Sign Here .....

.....

.....

.....

Address .....

Business .....

Introduced by Accepted by .....

Date 192 Remarks .....

face

O

To the
INSTITUTE NATIONAL BANK OF STATETOWN:

Until you are further notified by the undersigned, in writing, you are hereby authorized, empowered and directed to honor and pay all checks drawn on you and signed by .....whose signature appears below (who is fully authorized to represent and act for the undersigned in all dealings with your Bank) and charge such checks to the account of the undersigned.

.....

Signature of person
authorized to sign checks: .....

I hereby certify the foregoing is the signature of

.....

Dated, this.....day of.....A. D. 192....

.....

back

SIGNATURE CARD FOR PARTNERSHIPS

AUTHORIZED SIGNATURES OF PARTNERSHIP

.....

For the

INSTITUTE NATIONAL BANK OF STATETOWN

Mr. ..... will sign .....

Mr. ..... will sign .....

Mr. ..... will sign .....

Mr. ..... will sign .....

.....

.....

.....

Date.....192.... face

O

Name .....

Address .....

Business .....

Introduction .....

Came from .....

Other Bank Accounts .....

Remarks .....

Account accepted by .....

back

SIGNATURE CARD FOR CORPORATIONS

AUTHORIZED SIGNATURES OF ..... CORPORATION

For the

INSTITUTE NATIONAL BANK OF STATETOWN

Countersigned by

..... President

..... Vice-President

..... Vice-President

..... Secretary

..... Treasurer

.....

.....

Date.....192.... face

O

Name .....

Address .....

Business .....

Introduction .....

Came from .....

Other Bank Accounts .....

Remarks .....

Account accepted by .....

back

SIGNATURE CARD FOR ONE BANK OPENING A DEPOSIT ACCOUNT WITH ANOTHER

AUTHORIZED SIGNATURE OF

.....

For the INSTITUTE STATE BANK OF STATETOWN

Below find the ..... (NUMBER) authorized signatures which you will please recognize in the payment of funds or the transaction of other business on account of this Bank. Yours respectfully,

Date ..... Cashier

.....
President

.....
Vice-President

.....

.....
Cashier

.....
Assistant Cashier

.....

Date..... 192.... face

.....

Capital .....

Surplus .....

Undivided Profits .....

.....

.....

.....

Introduced by .....

Terms of account .....

back

which it has credited him. In order that the bank's position may be clear, such legal notice to depositors should be given of the terms on which deposits are received.

DUPLICATE DEPOSIT TICKETS. — Sometimes, especially when the amounts are small and the deposit is expected to be comparatively short-lived, instead of giving the depositor a pass book, the bank may give him a duplicate slip for each deposit ticket he makes out—that is, each deposit will be entered on a slip which is handed to the depositor and serves, instead of the pass book, as the depositor's evidence of the deposit. Likewise, the duplicate deposit ticket is of great convenience when the depositor forgets to bring his pass book. Banks that do not have a special printed duplicate slip may use a rubber stamp on the regular slips to acknowledge deposits.

STATEMENT OF ACCOUNT. — This is a duplicate of the ledger account prepared daily and completed on the last day of the month, or at some other regular time as may be determined by arrangement with the depositor. The depositor is expected to call for this shortly thereafter. If he does not do so it may be mailed to him. It lists the amounts deposited and the checks drawn by the depositor which the bank has paid during the month, and then shows how much of a balance the depositor has—that is, for how much he may still draw on the bank. Bankers usually require the depositor to acknowledge, by his signature, that he has received the statement, and there is also usually a stipulation that if it

SPECIMEN DUPLICATE DEPOSIT TICKETS

DEPOSITED BY

.....

in

The Institute National Bank of New York

Temporary receipt for deposit, issued pending entry in Pass Book.

Depositors will please compare above amounts with entries in statement when rendered.

DUPLICATE DEPOSIT TICKET

Institute National Bank

CLEVELAND, OHIO _____ 192

_____ HAS DEPOSITED $_____ TO

THE CREDIT OF _____

_____ TELLER.

is not objected to within a certain number of days the account will be considered correct. Most banks use the monthly statement of account. With other banks the customer must present his pass book to be "written up," showing checks paid and balance forwarded. It is often necessary under this system to notify and urge customers to bring in their books.

RECEIVING TELLER AND DEPOSITORS.—In small banks where the amount of business done does not justify a separate note teller and collection clerk, the receiving teller receives and accounts for all the funds that come into the bank. In large city banks the receiving teller's main duty is to receive, receipt for, prove, and distribute the contents of the deposits that come in directly over the counter. His work divides itself into two chief functions: (1) He must prove the deposit tickets and receipt for items so received; (2) he must sort the checks and currency into groups before turning them over to the other departments of the bank. The receiving teller must be able rapidly to compare the amounts entered on the deposit slip with what is handed to him. He should also be sure that the pass book presented is issued by his own bank and belongs to the person whose name is on the deposit slip—if the right name is not on the ticket, trouble and confusion may result, for then the ledger account and the pass book would not tally. The ledger account would show a certain sum deposited by A, while the pass book of B would contain an entry of that sum. When checks of corporations are presented the receiving teller should

see that all checks are indorsed by the corporations, and not by the officers as such. Thus, "The A. B. Company, by Robert Jones, Treas.," is a proper indorsement, while "Robert Jones, Treas.," would not be. Suppose A, the treasurer of a corporation, presents a check payable to himself and signed by himself as treasurer, which he wishes to have credited to his personal account. A check so drawn puts a bank upon inquiry. It has been held in some jurisdictions that a bank is liable for accepting a check of this kind, for the reason that the check appears irregular on its face. Unless the signature of an additional officer appears on such a check, the bank should satisfy itself that the check is an authorized disbursement of the corporation before crediting it. Finally, deposit tickets are filed on spindles and sent to the bookkeeper's desk to be entered in the proper ledger accounts.

NOTE TELLER AND MAIL TELLER.—The note teller also receives and accounts for certain funds for the bank. The proceeds of city collections usually come into the hands of the note teller. (City collections are checks and drafts drawn on business firms and on banks not members of the clearing house; they may also be notes left with the bank for collection. They are collected by messengers of the banks receiving them). He may also, in some banks, receive the money and checks that come through the mail. All payments made on notes discounted or purchased by the bank, or deposited for collection by customers, are made to the note teller unless the bank

assigns this duty to the discount department or the collection department. In these days of banking by mail many banks receive such a large volume of deposits in the morning mail that a special mail teller is necessary to handle this work. His work is similar to that of the receiving teller except that he acknowledges receipt of remittances by return mail. His work may require a large department which handles incoming mail all day, taking care of the remittances and distributing the other mail to the proper departments. In most banks, however, the mail teller's activity ends before noon, and he is then free to work with some other department, probably the note teller.

DIFFERENT KINDS OF DEPOSITS. — Deposits are either "special" or "general." A "special" deposit is created whenever a particular thing is delivered to a bank with the understanding that the identical thing is to be returned upon demand—bonds and jewels are examples. They are given to the bank for safe keeping. The bank may or may not receive any compensation for taking care of the valuables deposited with it, but whether it does or not, it must take reasonable care of them, and will be liable for loss resulting from its negligence. "General" deposits are ones which are to be repaid on demand in money, and the title to the money deposited passes to the bank. A deposits $1,000 cash with the bank. He has a right to get $1,000 in return, but not the same coin or currency. In the case of general deposits the relation of banker and depositor is that of debtor and creditor. General deposits must be made

with money or the rights to money; and when repaid they may be paid in any form of legal tender money. Such general deposits may be repaid in part or in full according to the wishes of the depositor. General deposits may be either "demand" or "time." "Demand" deposits, as the term indicates, may be withdrawn in whole or in part at any time. "Time" deposits, however, may not be withdrawn within a certain specified period. Section nineteen of the Federal Reserve Act provides that "demand deposits, within the meaning of this Act, shall comprise all deposits payable within thirty days." "Savings" accounts, according to the Federal Act, include those in respect to which the following conditions are accepted by the depositor at the time the account is opened: (a) The pass book, certificate, or other form of receipt, must be presented to the bank whenever a deposit or withdrawal is made; (b) the depositor may at any time be required by the bank to give notice of an intended withdrawal not less than thirty days before a withdrawal is made. Savings banks differ in many respects from commercial banks which deal in checking accounts. Very often the same bank has both commercial and savings departments. General deposits may also be classified as "individual," "bank" or "government." "Individual" deposits are rights to draw on the bank for funds, by an individual, firm or corporation, either on demand or upon notice given a certain number of days in advance. "Bank" deposits are obligations of one bank to another bank or other banks, and are often entered on a bank's

books as "due other banks," but this may be divided, in a more detailed statement, into "due National banks," "due State banks," "due trust companies and savings banks." "Government" deposits are merely funds owing to the Government.

JOINT AND ALTERNATE DEPOSITS.— Another classification of deposits is into "joint" and "alternate." Deposits made in two names connected by the word "and" are called "joint deposits"; those connected by the word "or" are called "alternate de-

ACKNOWLEDGMENT OF JOINT DEPOSIT

No.....

To INSTITUTE NATIONAL BANK.

The Deposits now or hereafter made to the account of the undersigned, whether made by them jointly or severally, are hereby declared to be their joint property, payable to either of them during their joint lives and to the survivor on the death of the other.

Milwaukee, Wis.,..... 192.....

In Presence of:

....

....

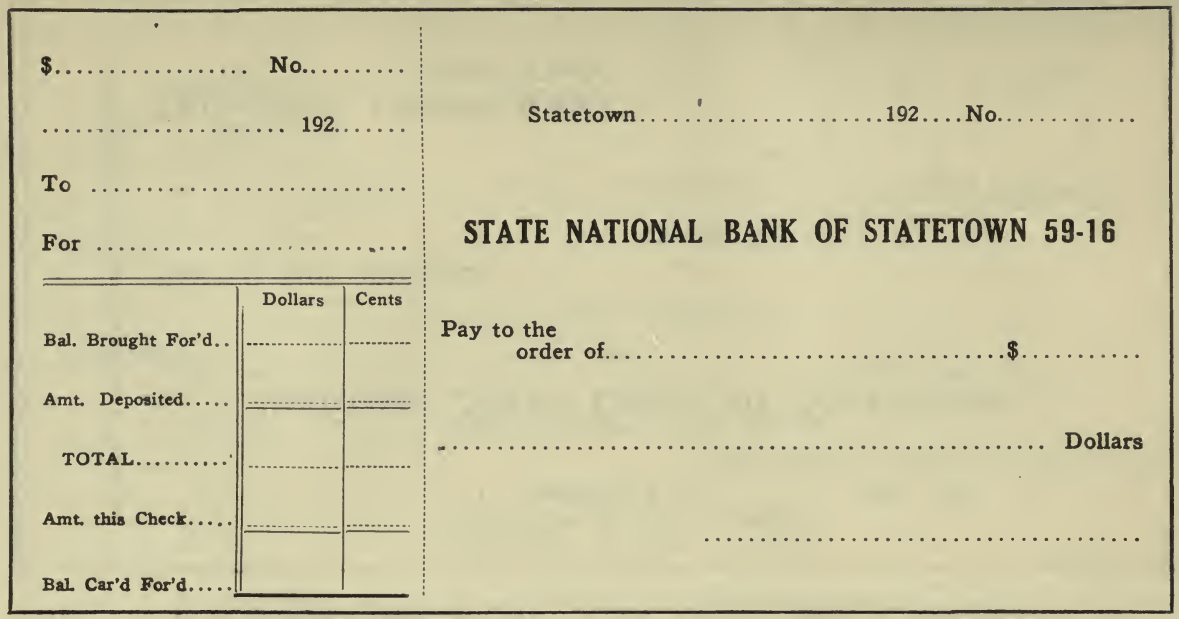
posits." The making of either a joint or alternate deposit may be construed either as establishing (a) a gift, (b) a trust, or (c) joint tenancy, whereby the whole belongs to the survivor. The intention of the depositor determines which one rules. Such deposits are made to secure (1) convenience in drawing funds, or (2) to make gifts becoming effective after death and avoiding administratorship. If the intention is that the account shall be a gift, it is not valid unless the pass book is delivered during the life-time of the donor. In some States, banks are authorized to pay such accounts to either of the persons "or to a survivor of them, or to a personal representative of such survivor." Bankers should be familiar with the law on this point in their respective States.

TRUST DEPOSITS.—Deposits made "in the name of one person, as trustee for another" are known as "trust deposits." This form of deposit is sometimes made in order to (1) arrange for the disposition of an estate after death without the use of a will or administration, (2) conceal from others information of financial status, or (3) increase deposits where a limit is set upon individual deposits. The mere deposit in this form does not create a trust, but in most States such a deposit is presumed to belong to the "cestui que trust" (the person for whom the account is in trust); but this presumption may be overcome by evidence showing that the mony was that of the depositor, who had no intention of giving it to the person named as the cestui que trust. However, this general rule is not uniform in all the States.

WHAT IS A CHECK?—A check is a written order on a bank for money. It should, of course, be drawn only by someone who has a deposit with the bank or the right to draw on it. As in a bill, the parties to a check are the drawer, the drawee, and the payee. But, unlike a bill, there does not have to be an acceptance. A check is drawn on a bank or banker; a draft may be drawn on an individual, firm or corporation. A check is always drawn payable on demand whereas a bill of exchange may be drawn payable at sight or at some future time. Checks are usually made payable to some one's "order," and must then be indorsed by the payee before they can be cashed or further negotiated.

CHECK BOOKS AND VOUCHER CHECKS.—The check book is simply a book of blank checks given to the depositor which he may use to draw on his deposit when he pleases. Most check books are so arranged that the checks may be torn out and a stub left in the book, which serves as a reference to the depositor and has spaces in which he may enter the name of the person to whom the check was given, the amount, the number, the purpose of the check, the amount left in the bank, and amounts deposited. The owner of the check book is not required to fill these out, but it is an easy and wise thing to do. It is particularly important for the depositor to make a memorandum of the description of every check he deposits, in order to facilitate tracing and identification if it should be necessary later to do so, and to keep his records straight, so as to avoid an overdraft.

CHECK FORM, SHOWING STUB IN CHECK BOOK



$..... No.....

..... 192.....

To .....

For .....

	Dollars	Cents
Bal. Brought For'd..		
Amt. Deposited.....		
TOTAL.....		
Amt. this Check.....		
Bal. Car'd For'd.....		

Statetown.....192....No.....

STATE NATIONAL BANK OF STATETOWN 59-16

Pay to the order of.....$.....

..... Dollars

.....

FORM FOR CHECKS ON OTHER BANKS (BANK DRAFTS)

Statetown.....192....No.....

Institute State Bank of Statetown

59-16

PAY TO THE ORDER OF.....$.....

..... DOLLARS

To the
CLEARING HOUSE BANK .....
1-20 **New York** CASHIER

FORM FOR VOUCHER CHECK

VOUCHER NO. _____

Approved

_____

Chairman

_____ Committee

Countersigned and Approved

_____

Secretary

_____

Pres., First Vice-Pres., Chairman Exec. Council

ITEMS

_____

_____

_____

New York.....192.....No.....

Treasurer

THE AMERICAN BANKERS ASSOCIATION

PAY TO THE ORDER OF.....

.....DOLLARS $.....

In full payment of Voucher No.....

THE AMERICAN BANKERS ASSOCIATION

PAYABLE AT

AMERICAN BANKERS BANK

1-150 NEW YORK .....

Secretary

COUNTER CHECKS. — In order to prevent forgers and swindlers from using the regular checks of the bank the "counter check" has been devised. These may safely be left open to the public because they are cashable only at the bank's counter and by the drawer in person.

VOUCHER CHECKS. — Voucher checks are checks that include a statement of the goods ordered or expense incurred by the drawers. Many companies issue such voucher checks in order to secure indisputable proof of the payment of the items described in detail by the voucher part of the check. They will be slightly different in form for different businesses, but they should always be made in negotiable form and in the form of a straight draft or check, with the indorsement of the payee to be accepted as sufficient receipt.

TRAVELERS' CHECKS. — These are issued by the American Bankers Association, by some of the larger banks and by express companies, at a small cost and are a great convenience to travelers. The purchaser signs them at the time of purchase and his countersignature, which must agree with the original, is all that is necessary at the time of cashing. These checks are usually readily accepted at railroad stations, hotels, etc., and if lost or stolen before being countersigned, may have payment stopped upon them and duplicates issued. They are issued in denominations of $10, $20, $50 and $100.

PROPER DRAWING OF CHECKS. — There are certain simple rules which, if observed in drawing

COUNTER CHECK, FURNISHED BY THE BANK, TO BE USED ONLY IN THE BANK ITSELF

FOR COUNTER USE ONLY
NOT NEGOTIABLE
(These Words Printed in Red Ink)

Statetown.....192.....

RECEIVED IN PERSON FROM

State National Bank of Statetown

TO BE CHARGED TO MY ACCOUNT

..... Dollars, $.....

.....

checks, will greatly lessen the danger of fraud, particularly in the raising of checks. The writing in the body of the check should agree exactly with the figures used to indicate the amount for which the check is drawn. The paying teller must be able to tell that the signature on the check is not a forgery and that the amount for which it was drawn has not been raised. Signatures of customers doing an active and regular business are easily remembered. Reference to signature files is generally necessary only in the cases of infrequent depositors and checks of corporations where only specified officials are authorized to sign. If the paying teller pays a forged check then the bank is liable. If he pays a raised check the bank is liable for all over the original amount the check was drawn for. It is sometimes very difficult to determine whether a check has been altered. Sometimes checks are so very carelessly drawn that it is a simple matter to change them. In some jurisdictions depositors are liable where they draw checks carelessly and make fraud easy, but such carelessness or fraud must be clearly proved, as the courts are generally inclined to favor depositors rather than banks. The use of safety paper (a paper with a thin coating on it that makes any erasure noticeable) is becoming more common. Checks written in pencil are not prohibited, but there is much danger in using pencil, as the writing may be easily altered. Bankers should take care to have their checks printed in such a way that the possibility of fraud will be lessened. They should also inform the customer as to the best

way of writing checks. Good ink and plenty of it should be used. It will pay the bank to furnish safety paper, even though it does cost a little more. The figures should be written close up to the dollar sign ($) and should be made strong and prominent, and the "No/100" should be made in such a way that

AN INCORRECTLY DRAWN CHECK

Statewood, Ind., Dec. 17, 1921. No. 3675

THE STATEWOOD BANK 17-81

Pay to the order of T. L. Wright $10

Ten Dollars.

JOHN T. SMITH.

CHECK CORRECTLY DRAWN

No. 3675 Statewood, Indiana, Dec. 17, 1921.

THE STATEWOOD BANK 17-81

Pay to T. L. Wright or order

Ten 00/100 Dollars

$10.$\frac{00}{100}$ JOHN T. SMITH.

there will be no room left for other ciphers. All spaces should be filled with a clear, wavy line. Care should be taken in issuing checks to strangers. Checks for small sums are sometimes obtained for the purpose of raising the amount. Protective devices, a number of which are now sold, should be used if possible. The stub should be filled out first; otherwise it might be forgotten and the maker or drawer of the check would have no record of it. The stub and check should be drawn exactly alike. Signatures should always be written in the same way and the same style of letters should be used. It will help if the same style of pen is used in all cases. The name should always take up about the same space, and should not be sprawling one time and small the next. The same form should be used for the given name or initials—not John Smith one time, John T. Smith the next, and then J. T. Smith.

RIGHTS OF CHECK HOLDERS.—When the depositor has funds on hand to meet a check the bank is required to pay it, for there is a contract obligation on it to do so, and it is liable for any damages the drawer may suffer if the check is not paid. This, of course, does not apply to checks on which payment has been stopped. The death of the depositor revokes all his checks that are unpaid at the time of his death, except in a few States, notably in New Jersey, where checks may be paid if presented within ten days after date of check. A bank in other States which pays a check with knowledge of the drawer's death is liable to his estate. In some States a similar rule applies to

checks drawn by a person convicted of a felony, since such conviction suspends all civil rights.

PAYING CHECKS. — How are checks paid? In two ways: (a) by handing cash to the payee or holder (part of the duties of the paying teller), or (b) by receiving it on deposit for the credit of another. This second method shows how important it may be for the receiving teller, some of whose duties we have already described, to know what checks are good before giving credit therefor to another party, as the law in most jurisdictions considers a check on the depository bank to be paid when that bank has accepted it for deposit. When checks are presented to the paying teller he must determine (1) that the check is genuine, (2) that it has not been raised, (3) that it is not dated ahead of the day on which it is presented, (4) that he knows the person presenting the check (or he must be identified by some one known to the bank) and that all indorsements are in order, (5) that payment has not been stopped on the check, and (6) that the drawer has a sufficient amount on deposit to pay the check. It can easily be seen that the paying teller has an important position, especially when it is remembered that he often has but a few seconds to pass on all these points. In addition to cashing checks, the paying teller is responsible for the vault cash and counter cash, makes up payrolls for the bank and for its customers, handles currency shipments, both new and old currency, as well as mutilated money shipped for redemption, probably certifies checks and has charge of signature records.

CHECKS PAYABLE TO BEARER.—Checks made payable to "bearer," "cash" or "currency" are payable to the bearer, and the teller may pay them without identification or indorsement, although it is a good rule to endeavor to secure indorsement in any event. They may be negotiated by delivery and no indorsement is necessary. The drawing of such checks should be discouraged, for it is much safer to make checks payable to the order of some definite person.

POST-DATED CHECKS. — These are checks dated subsequent to the day on which they are issued. For instance, A may draw a check today but date it three days ahead. This is "post-dating" the check. The paying teller must not pay checks dated ahead, for by tomorrow the maker may issue a stop-order and cancel the check, or he might not have enough money on hand to enable the bank to pay it. So if the bank does pay it, it does so at its own risk. Sometimes it is a temptation to a man to date his check ahead. He owes a bill of $200. He does not have that much in the bank, but thinks he will in a few days. So he dates the check ahead four or five days. Suppose the check gets to the bank before the four or five days are up. The bank refuses to cash it. The man who draws it is "in wrong" with his banker and loses credit. Where a check (or bill or note) is not dated, it will be considered to be dated as of the time it was issued. The paying teller can fill in the date as of the day it is presented, or the person presenting the check may do this.

OVERDRAFTS. — The paying teller must be sure before cashing a check that the depositor (who is the drawer) has sufficient money in the bank to pay it. Otherwise, theoretically at least, the bank should not pay it. Sometimes, however, banks will, in the case of good customers, make an exception, and allow an "overdraft," which occurs when the bank pays a check drawn for a larger amount than the drawer has to his credit. Overdrafts are discouraged by all banking authorities and a bank habitually permitting them will probably be censured by the National or State examiners. A bank is not bound to pay a part of a check where there is not enough to the depositor's credit to pay it in full. Suppose A has $1,000 in the bank, and draws two checks for $600 each. The bank is bound to pay the first one presented, even though it may have been drawn later than the other one, and the bank will not have to pay the latter when it is presented, since the account would then be overdrawn. Nor would it have to pay $400 on the second one presented. Suppose the two $600 checks A has drawn are presented at the same time. If both are paid the account will be overdrawn. In cases of simultaneous presentation, the bank's officers can legally select the one they prefer to pay.

STOP-PAYMENT ORDERS.—The maker of a check has the legal right, in most States, to stop payment on the check at any time before it is actually paid. So if he notifies the bank not to pay the check when it is presented, the bank cannot charge the amount to his account. The request may

NOTICE OF OVERDRAFT SENT TO DEPOSITOR

The Institute National Bank

Idaho..... 192.....

Mr.....

.....

Dear Sir:

According to our books your account appears overdrawn $..... Please advise or call on us at once.

If an immediate notice is given that your account is overdrawn, do not misconstrue the haste. It is a wise provision to detect forgery, raised checks or mistakes.

Respectfully,

....., Cashier.

REMARKS

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be by letter, telephone, or in person. Banks keep a careful record of such stop-orders, and do not accept them by wire unless they are certain of the identity of the person telephoning or telegraphing, and even then they obtain written confirmation as soon as possible.

CERTIFIED CHECKS.—It has been stated that one of the ways in which checks differ from bills is that they are not presented for acceptance. This is

BOND OF INDEMNITY
LOST BANK CHECK, DRAFT OR CERTIFICATE OF DEPOSIT

KNOW ALL MEN BY THESE PRESENTS, That we ..... of ..... and ..... of ..... are held and firmly bound unto the ..... Bank of ....., in the sum of .... Dollars, lawful money of the United States, to be paid unto the said.....Bank, its successors and assigns, for which payment well and truly to be made, we do hereby jointly and severally bind ourselves, our and each of our heirs, executors and administrators firmly by these presents.

Sealed with our seals this ..... day of .....

The condition of this obligation is such that

WHEREAS ..... of ..... a depositor in the said ..... Bank did on the ..... day of ..... for value received, execute and deliver to ..... a certain check drawn on the ..... Bank for the sum of ..... dollars, payable to the order of ..... (and if necessary add "who on the ..... day of ..... did indorse and deliver the same to .....") and the ..... Bank did on the ..... day of ..... certify the same and charge the amount thereof against the account of said ....., and

WHEREAS it is claimed by said ..... that said check has been mislaid, lost or stolen and cannot be surrendered for payment and it is now demanded that payment thereof be made and which payment is accordingly made.

NOW THEREFORE, if the said ..... and ..... their heirs, executors or administrators shall, at all times hereafter, indemnify and save harmless the said ..... Bank against all loss or damage to it arising by reason of the payment of said certified check and all costs, charges and expenses and all actions or suits, whether groundless or otherwise, and shall also deliver or cause the same to be delivered up when and so soon as it shall be found, to be cancelled, then this obligation shall be void; otherwise to remain in full force and effect.

IN TESTIMONY WHEREOF, we have hereunto set our hands and seals, this ..... day of .....

.....(Seal.)
.....(Seal.)
.....(Seal.)

Signed, sealed and delivered in presence of

.....

(Acknowledgment.)

substantially true, but the holder of a check may occasionally present it to the bank on which it is drawn, requesting the bank to certify upon its face that the drawer's account is "good" for the amount of the check. This the bank may do by writing the words "accepted," "certified," "good when properly indorsed," "good," or other equivalent words on the face, together with the date and the name of the teller or other officer authorized to certify. This may be done in writing or with a stamp. The check then becomes the absolute obligation of the bank—practically its promissory note — and in case the payee requested the certification, the drawer is discharged and the holder can look only to the bank for payment, as the bank has guaranteed that the check will be paid on presentation. A record is kept of all certified or accepted checks, and no stop-payment can legally be made on a certified check, although in case of loss or destruction of the check the bank may issue a duplicate, usually receiving a bond of guaranty for twice the amount of the check. The amount is at once debited to the depositor's account and the amount that he can otherwise draw is reduced by the amount of the certified check. The check continues to be negotiable, and the indorsers after the certification are liable. The reason for thus releasing the maker is that the holder had his choice of taking money or certification at the bank, and must abide thereby. A bank does not have to certify a check. In some cities it is not done at all except in rare instances, while in other cities it is never done except at the direct re-

quest of the maker. Depositors may ask the bank to certify their checks before giving them to any one else, for they are then more easily negotiated. But if the drawer asks the bank to certify the check before he delivers it to the payee, he remains liable. In brief, then, if the holder obtains the certification the maker is released and the holder is the loser if the bank becomes insolvent; whereas, if the drawer has obtained the certification, he is responsible in case the bank fails within a reasonable time after he delivers the check to another.

CASHIER'S CHECKS. — Cashier's checks or treasurer's checks are orders drawn by the cashier or treasurer of a bank upon the bank itself and are liabilities of the bank. They are payable on demand. A "bank draft" is an order by one bank on another bank to pay a third person; a cashier's check is the bank's order on itself for payment from its own funds. When properly indorsed by the payee, a cashier's check may be cashed by the paying teller, or deposited in another bank. It may be used by the bank when it buys notes, bills or other securities, when it makes loans to outside parties, and when it pays expense bills. In some places it is exchanged for the customer's check in preference to making a certification. Registers are kept of all checks issued, and the amounts issued and paid are sent to the general ledger bookkeeper for his records. A special form of cashier's check may be used in paying dividends to stockholders. A cashier's check is not generally subject to a "stop-order," since the act of issuing it is

regarded as an acceptance in advance, and it has the same standing as a certified check.

INDORSEMENT.—Since checks are a form of bill of exchange, the general rules regarding indorsements are the same. It should be borne in mind that checks indorsed in blank (the holder's name, and nothing else, being written on the back of the check) are for all practical purposes payable to bearer. Indorsements should be written across the back of a check and not lengthwise. One should take care not to indorse a check in blank until just before he presents it to the bank for payment, because if the check should be lost, when indorsed in blank, the finder may cash it (receive the money on it) at the bank. Checks should be indorsed exactly as they are drawn. Thus, if a check is made payable to John R. Blair, it should not be indorsed J. R. Blair or John Blair, or in any way except John R. Blair, and if the name is wrong or spelled wrong, then the payee should indorse with the name as it is written on the face of the check, and put the correct name or spelling underneath that indorsement. Checks that are irregularly indorsed should not be cashed. Bank indorsement stamps are either "general" or "direct." In the straight or direct indorsement a definite payee is named. The general indorsement bears the words "Pay to the Order of any Bank or Banker." The use of the latter form of stamp makes it possible to indorse all checks alike and very rapidly, thus enabling the bank to handle and assort great numbers of checks at a minimum of time and labor.

PRESENTMENT OF CHECKS. — As previously stated, bills of exchange must be presented within a reasonable time after their issue or the drawer and indorsers will be discharged. The drawer of a check remains liable indefinitely, unless he is actually injured in some way by the holder's failure to present the check for payment. If the drawer suffers any loss he will be discharged to the extent of the loss. Thus, Brown gives Smith a check for $500. Smith does not present this within a reasonable time and Brown proves that he has been injured to the extent of $100. Then Brown will have to pay only $400 on the check. Suppose Smith does not present the check within a reasonable time and before he does present it the bank becomes insolvent. Then Brown is discharged, for if the maker of a check has funds in the bank on which it is drawn and the payee has sufficient time to present the check before the bank fails but does not do so, then the maker is not at fault and should not be made to suffer because of the payee's negligence.

CERTIFICATES OF DEPOSIT. — A has $1,000 in X Bank. He does not wish to draw checks against this amount. So he asks for a "certificate of deposit" from the bank. This is practically a receipt stating that "A has deposited in this bank one thousand dollars payable to his order when he returns this certificate." It is signed by the cashier. If certificates are made for a definite period, as for three or six or twelve months, they are often made with interest. They are really promissory notes of the bank.

Certificates of deposit are sometimes used to transfer cash from one place to another, especially when the place to which it is desired to transfer funds is a considerable distance away. The depositor may get a certificate of his deposit which will direct its payment to another person, and the latter will have no difficulty in getting the certificate cashed, or the amount credited to him at any bank. Again, A deposits $1,000 in a bank for safekeeping or for the use of some one else. He takes a certificate of deposit, stating that the sum has been deposited and is payable to the order of himself or of some other payee. Certificates of deposit are either "demand" or "time"; that is, payable on demand or at a stated future time. The custom is growing of issuing time certificates of deposit which are to be paid "on 31 days' notice" or "after 31 days' notice." This enables the bank to classify these funds as time deposits and under the Federal Reserve Act to carry a reserve of only 3% against them, whereas if the funds were covered by a demand certificate of deposit, a reserve of from 7 to 13% would be necessary. Time certificates are not negotiable, the funds represented thereby being transferable only on the books of the banking institution issuing the certificates.

SPECIMEN CERTIFICATE OF DEPOSIT

No...... *Institute National Bank of Statetown* **59-16**

CERTIFICATE OF DEPOSIT
NOT SUBJECT TO CHECK

Statetown,.....*192*.....

.....*ha*....*deposited in this Bank*

..... *Dollars*

payable to the order of.....

upon the return of this Certificate properly indorsed, with interest at

.....*per cent. per annum if left*.....*months.*

PAYMENT SUBJECT TO 31 DAYS' NOTICE

$ ....
Cashier.

BANK ETHICS

In the business of banking magnetic personality means much, but it does not mean everything. There may be too much glad hand and too little straight eye and perpendicular conscience. Palaver and entertainment may get some new bank accounts, but only efficient service and complete confidence can keep them. A reputation for just and uniform treatment of customers is more attractive than a reputation for favoritism—even to favorites. To get and keep business, as well as to get and keep friends, the good and true in ourselves and others, and not the weak and vicious, should be cultivated. Associations of bankers, State and National, are educating the fraternity in professional ethics, and as a result competition is now directed not so much toward cutting throats as toward developing new business and elevating the standard of the banking profession. Bankers as a class are honest, not only from inclination but from necessity. Character is the greater part of their capital, and its impairment would be disastrous. It is to their interest not only to maintain integrity among themselves, but to promote integrity in others. It is to their interest to make the world better as well as richer. Self-interest may not be the ideal motive for exalting the golden rule and decrying the golden calf, but the presence of self-interest does not imply the absence of devout sincerity in preaching and practicing what is right.—George E. Allen.

CHAPTER IV

Promissory Notes and Discount

WHAT IS A PROMISSORY NOTE?—A promissory note is a promise made in writing by one party, called the maker, to pay a sum of money on demand or at a fixed or determinable future time, to another party, called the payee, or to his order. Promissory notes and bills of exchange are written contracts. Consideration is always held to exist in the case of bills and promissory notes until it is positively shown that it does not. The accompanying simple form of promissory note signed by

SIMPLE FORM OF PROMISSORY NOTE

Minneapolis, Minn., July 3, 1922.

Two months after date I promise to pay to the order of John Wagner five hundred dollars, with interest at 6%.

PHILIP SMITH

Philip Smith might read: "On demand after date" and "to John Wagner or order," and the provision for interest might be omitted. In the accompanying form of note, Philip Smith is the "maker" and John Wagner is the "payee." A promissory note must contain an unconditional promise to pay a definite sum in

SPECIMEN FORM OF PROMISSORY NOTE

Statetown,....., 192.... No.....

..... after date..... promise to pay Due .....

to the order of..... $.....

..... Dollars .....

at the **Institute National Bank of Statetown** .....

59-16.

.....

money. Usually the words "I promise to pay" are used, but they are not necessary. Any words which mean the same thing may be used. For instance, the words "good to bearer" just as clearly show a promise to pay. But mere admissions of debt are not sufficient. Thus, such phrases as "I owe X"; "due X"; "I. O. U.," etc., merely admit that a debt exists and are not promises to pay the debt. Like bills, promissory notes are either "demand" or "time." They may be issued by firms, corporations, and governments and institutions, as well as by private individuals. Bank notes, United States notes, and bank certificates of deposit are forms of promissory notes.

USES OF PROMISSORY NOTES.—Suppose A buys from B $1,000 worth of merchandise. If he is not able to pay in cash, or does not wish to do so, he may give B his promissory note. This is but a promise to pay B either on demand or at some fixed or determinable future time. Or he may himself have a promissory note issued by C. He may indorse this and give it to B and pay for his own debt in this way. The seller is not compelled to accept a promissory note. The business reputation of the buyer is of much importance to a man in deciding whether he will accept a promissory note from him or not, just as it is to a bank when the man wishes to get money from it. The written promise is better than a verbal one because it is easier to prove in court. The advantage of promissory notes to a business man is that he can use them to pay his own debts or to get money from a note broker or at a bank. It also sets a specific date for

SPECIMEN FORM OF NOTE

	Montana, ..., 192....
$.....	.....after date, for value received, we jointly and severally promise to pay to the order of .....
When due	..... ***Dollars*** 100 with interest thereon at .....per cent. per month from date until paid, and with reasonable attorney's fees in addition to other court costs in case an action is instituted to enforce payment. Each of the makers hereof, and the indorsers hereon, waive demand, protest and notice of non-payment.
Number	Payable at office of ..... P. O. .....
	The First National Bank ..... P. O. .....
	Montana. ..... P. O. .....

payment; and dishonor of a note is more feared by the business man than mere slowness in payment of an open account.

DATE OF MATURITY. — Formerly three "days of grace" were allowed to all persons obliged to pay notes—that is, three days beyond the time when one would expect them to become due. This has been abolished now in all or nearly all the States and an instrument matures on the date fixed. Bankers should become acquainted with the provisions of the law on this point in their own State. If a note is made payable a number of days after or from date, the day it was drawn is excluded in determining the due date of the note. If a note dated May 10 is payable thirty days after date, it is due June 9. Suppose June 9 falls on a Sunday or a legal holiday, then the note is due on the next business day. If the note had been dated May 10 and made payable one month from date, it would have been payable June 10. The presentment for payment must be made on the day the note is due and at a reasonable hour. If a note is issued reading "with interest," but without any provision as to the rate of interest, then the rate will be the legal rate provided by the State law. Students should learn the legal rate of the State in which their bank is located. If no part of the principal or interest of a note is paid within a certain time after maturity, it is said to be "outlawed" and cannot be collected. See the statute of limitations in your own State. In most jurisdictions, notes that are payable "on demand" do not draw interest before they are presented for payment

(notes are not presented for "acceptance," as bills are) unless they contain an express provision providing for interest. However, after they have been presented for payment they draw the legal rate until paid, even though it has not been mentioned in the note. In some jurisdictions, however, it has been held that an obligation to pay money on demand is payable immediately, and that interest is recoverable from its date. When bills or notes are payable on demand, the payee or holder is entitled to payment upon delivery. But presentment must be made within a reasonable time after the note (or bill) is issued. The question as to what is a reasonable time is one which depends on the nature of the instrument, the usage of trade or business with respect to such instruments, and the facts of the particular case.

PLACE OF PAYMENT.—Presentment for payment must always be made at the place named in the note (the same rule applies to bills). Suppose the note reads "payable at the Italian-American Bank"—then it must be presented for payment at that bank. But suppose the note had simply said: "Payable in Chicago"—then the presentment must be at the maker's place of business or residence in Chicago. If he has neither a residence or place of business in Chicago, then the presence of the note (or bill) in Chicago in the hands of the holder or his agent authorized to collect, is the correct mode of presentment. The most convenient way of presenting a bill or note which is made payable in a city or town is to send it "for collection" to a bank of that place. If the draft or note

is payable at a bank, it is sufficient presentment if the paper is at the bank where it is payable when it becomes due and the bank knows that it is there. Many times, however, notes (and bills) do not specify a place of payment. Then it is payable at the maker's place of business or his residence (drawee's in case of a bill); when he has a known place of business that should be given preference over his residence, though the holder may present it at either one. He is not bound to present it at both the residence and place of business, even if he finds no one, at the place he chooses, to present it to. And if the maker has a residence or place of business, then a personal presentment to him—for instance, a presentment in a club or on the street—will not be sufficient. But it may happen that no place of payment is named and the maker has neither a place of business nor a residence. Then it will be a good presentment if the holder is present with the paper and ready to be paid at the place where the contract was made. The presentment will also be good if presented to the maker personally wherever he can be found, or if made at his last known residence or place of business. Presentment for payment is dispensed with when after the exercise of reasonable diligence it cannot be made. These rules apply also to bills of exchange. It is a matter of convenience, and something that will be appreciated, to send to the maker notice of the maturity of a note several days before it becomes due. The maker may dispense with the making of any demand, or the giving of any notice, by putting the words "waiving

demand and notice" in the note. Indorsers may do the same, as regards their own rights to notice. The same provisions as to "protest" and "notice" apply to promissory notes as apply to bills of exchange.

PARTIAL PAYMENTS.—The holder of an instrument has a right to payment in full when a note becomes due. But he may, if he wishes, let the maker pay in installments when he cannot pay the full amount. Care must be taken in such cases to compute exactly the amount due in principal and interest at every payment. Partial payments should be indorsed on the instrument in some such form as "Received on the within note $50 January 6, 1922. (Signed) Henry J. Peters."

INDORSEMENT.—To indorse a note, which enables some other person to collect on it, the payee writes his name across the back of it. This makes the payee, like the maker, responsible for the payment of the note. The person to whom he has indorsed it may indorse it to some other person (unless the first indorsement was a restrictive indorsement). All those who indorse a note are liable for the payment of it, except when the indorsement is qualified. Notes which have only one person responsible for their payment are called "single-name paper"; those having two or more responsible signers are called "double-name" or "three-name" paper. When the maker draws a note payable to himself, it is not complete until he has indorsed it. The rules regarding indorsement of notes are the same as for drafts, as previously explained.

NEGOTIATION.—The essential characteristic of promissory notes is the same as that of bills—the fact that they can be passed from one person to another. This negotiation is effected either (1) by merely handing it from one person to another when the note is made payable "to bearer" or where the indorsement is "in blank," or (2) by indorsement. It will be remembered that a draft must have certain things present in order to be negotiable. The same things are necessary with promissory notes, viz.: (a) It must be in writing and signed by the maker; (b) it must contain an unconditional promise to pay a definite sum in money; (c) it must be payable on demand, or at some fixed or determinable future time; (d) it must be payable to order or to bearer. A summary of the formal requisites of a note which make it negotiable would give us the following (from the Negotiable Instruments Law): "A negotiable promissory note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to order, or to bearer." A note may be non-negotiable if the words "bearer" or "order" do not appear on its face.

JOINT MAKERS.—Suppose A purchases goods from B and wishes to give the latter his promissory note. B will not accept A's note unless A gets some one to sign with him to insure payment of the note when it becomes due. So A gets C to sign with him. Then A and C are "joint makers," and C is liable on the note if A refuses to pay it when it becomes due,

whether he has been notified of A's failure to pay or not. This would be so even if he had signed his name on the back of the note, where an indorser does, before delivery to the payee.

MONEY—LEGAL TENDER.—Notes and bills must be paid in money; that is, in "legal tender." The efficient bank representative must know the rule concerning legal tender as applied to money in the United States. Let us consider, first, the reasons for such rules regarding legal tender; and, second, the rules as they now stand. Debtors who wish to liquidate their debts must know with what a debt may be paid and the debtor released. Since debts are usually drawn in terms of "dollars," it is of importance to know just what a dollar is when it comes to securing release from debt. For if it could be proved that the debtor had not offered "dollars," he would not be released from the obligation. To cover this situation, laws have been enacted stating what the courts shall recognize as legal "dollars" for debt payments. These laws enumerate the terms and kinds of money that may be tendered to pay a debt. These forms of money and this quality of certain kinds of money is known as legal tender. Legal tender, then, may be defined as a power bestowed on certain kinds of money by Act of Congress, which states that this money may by law be offered in just satisfaction of debts. All other forms of money or of payment are not legal tender, though, indeed, they may be acceptable tender and the creditor may accept non-legal tender if he wishes. It is of importance to know what forms of

money are legal tender when the creditor for some reason does not wish to be paid the amount of the debt. An illustration of such a creditor might be one who had given a long term option on land that has unexpectedly and suddenly realized a great rise in value. The following are the various kinds of United States money and currency and their legal tender qualities:

1. Gold coin, legal tender to an unlimited amount and everywhere.

2. Silver dollars, legal tender to an unlimited amount and everywhere.

3. Treasury notes of 1890, legal tender to an unlimited amount and everywhere.

4. Subsidiary silver (halves, quarters and dimes), legal tender to the amount of $10 and everywhere.

5. Minor coins (nickels and cents), legal tender to the amount of twenty-five cents and everywhere.

6. United States notes, legal tender to an unlimited amount but not in payment of duties on imports or interest on the public debt.

7. Gold certificates, legal tender to an unlimited amount and everywhere. (Act of Congress, December, 1919.)

8. Silver certificates, not legal tender but receivable for all public dues.

9. National bank notes, not legal tender but receivable for all public dues except duties on imports. All National banks are required by law to receive the notes of other National banks at par.

10. Federal Reserve notes, not legal tender but

receivable by all National and member banks and Federal Reserve banks and for taxes, customs and other public dues.

11. Federal Reserve bank notes, not legal tender but receivable for all public dues except duties on imports.

INTEREST.—Interest is compensation paid for the use of money—money borrowed either directly or on an account due or for other obligations. Notes are either interest bearing or non-interest bearing, as the notes provide. Interest is either "simple" or "compound." "Simple" interest is a sum paid for the use of the principal only. But sometimes the interest for a certain period is added to the principal and the interest for the next period is on this principal and interest added together; the interest on the total is "compound" interest. Suppose A loans B $1,000 on a promissory note due in two years, to draw interest at 6%. Under simple interest A would get $1,120 at the maturity of the note. But suppose the note contained a provision that interest should be compounded annually. Then at the end of the first year the interest ($60) would be added and the new principal for the second year would be $1,060, so that when the note became due A would get $1,123.60. Unless specifically stated otherwise, interest is simple. If interest is not paid when due, interest on the unpaid interest cannot generally be collected. Banks usually collect interest in advance on their discounts of commercial paper.

COLLATERAL WITH NOTES.—The maker

of a note, in order to get money on it, often gives certain security which is known as "collateral" and is designed to insure the payee against the maker's inability to pay on maturity. Thus, A borrows $1,000 from B and gives B his promissory note for that amount. A also gives B (or puts in the hands of a third party) securities which shall be used to reimburse B if he, A, fails to pay the note when due. Suppose A fails to pay and the securities sell for $1,500. Then B will have to return to A $500 less interest on the note (if there is any). Thus, giving collateral makes security more specific.

COLLATERAL NOTE FORM.—The ordinary collateral note is, in form, the usual promissory note, with the rate of interest given, together with substantially the following language:

The undersigned has deposited with said bank as collateral security for the payment of this and any and every liability or liabilities of the undersigned to the said bank direct or contingent, due or to become due, or which may hereafter be contracted or existing, the following property (here the specific collateral is described), together with all other securities in the possession of said bank belonging to the undersigned or in which the undersigned has an interest; hereby agreeing to deliver to said bank additional securities to its satisfaction, upon demand of said bank, also hereby giving to said bank a lien for the amount of all said liabilities of the undersigned to said bank upon all property or securities which now are or may hereafter be pledged as collateral with said bank by the undersigned, or in the possession of said bank in which the undersigned has any interest, and, also upon any balance of the deposit account of the undersigned with said bank. On the non-performance of this promise, or upon the non-payment of any liabilities above mentioned, or upon the failure of the undersigned forthwith to furnish satisfactory additional securities on demand, at the option of said bank,

this obligation shall become immediately due and payable, and then and in every such case full power and authority are hereby given to said bank to sell, assign and deliver the whole of said securities or any part thereof or any substitutes therefor or any additions thereto through any stock exchange or broker or at private sale, without either advertisement or notice, the same being hereby expressly waived or said bank, at its option, may sell the whole or any part of said securities or property at public sale, at which public sale said bank itself may purchase the same or any part thereof free from any right of redemption on the part of the undersigned, which is hereby expressly waived and released. In case of sale for any cause, after deducting all costs and expenses of every kind, said bank may apply the residue of the proceeds of such sale, as it shall deem proper, toward the payment of any one or more or all of the liabilities of the undersigned to said bank, whether due or not due, returning the overplus, if any, to the undersigned, who agree to be and remain liable to said bank for any and every deficiency after application as aforesaid, upon this and all other of said liabilities; the undersigned hereby authorizing the transfer or assignment of said securities and property to the purchaser thereof.

And I hereby authorize any attorney-at-law to appear in any court of record in the United States, after the above obligation becomes due and waive the issuing and service of process and confess a judgment against me in favor of THE FIRST NATIONAL BANK OF.....or any holder of this note, for the amount then appearing due together with the costs of suit, and thereupon to release all errors and waive all right of appeal and stay of execution.

COLLATERAL NOTE WITH WAIVER OF RIGHTS.—The form of this note is the same as a promissory note, with substantially the following language added:

The undersigned having deposited as collateral security for the payment of this and any other liability of the undersigned to the holder hereof, due or to become due or that may be hereafter contracted, the following property, to wit: (here follows a description of the collateral) the market value of which is now.....dollars, with authority to sell, transfer

SIMPLE FORM OF COLLATERAL NOTE

$..... Philadelphia, Pa..... 192..

..... after date.....promise to

pay to the order of..... .....

..... Dollars,

without defalcation, for value received, having deposited herewith as collateral security

.....

.....

.....

which.....authorize the holder of this Note, upon the non-performance of this promise at maturity, to sell; either at the Broker's Board, or at public or private sale, without demanding payment of this Note, or the debt due thereon, and without further notice, and apply the proceeds, or as much thereof as may be necessary, to the payment of this Note, and all necessary expenses and charges, holding.....responsible for any deficiency.

Payable at FIRST NATIONAL BANK .....

or re-hypothecate said collateral, it being understood that on payment or tender of the amount so due, the holder hereof may return to the undersigned an equal quantity of said securities instead of the securities deposited; with the further right to the holder to call for additional security in case there should be a decline in the market value of the securities deposited herewith, and upon the failure of the undersigned to comply with said demand and to deposit with the holder hereof additional security to be approved by said holder sufficient to cover said decline, this note shall become instantly due and payable as though it had actually matured, and all the rights hereby conferred to dispose of said collateral shall at once be exercisable at the risk of the undersigned in case of any deficiency in realizing proceeds.

Full power and authority are hereby given the holder hereof to sell, assign and deliver the whole of the above-mentioned securities or any part thereof or any substitutes therefor or any additions thereto at the Broker's Board or at public or private sale, at the option of said holder or his assigns, on the non-performance of this promise or the non-payment of any of the liabilities above mentioned or at any time or times thereafter, without demand, advertisement or notice, and after deducting all legal or other costs and expenses of collection, sale and delivery, to apply the residue of the proceeds of such sale or sales so made to the payment of any or all of the liabilities above mentioned, as said holder or his assigns shall deem proper, returning the over-plus to the undersigned. It is also understood that upon any sales of any of said collateral securities, said holder may become the purchaser thereof absolutely free from any claim of the undersigned. The makers and indorsers hereof hereby waive the benefit of their Homestead exemption as to this debt and do further waive demand, presentment, protest and notice of dishonor.

The collateral deposited must be salable property, the value of the property, rather than the credit of the borrower, providing the security for the payment of the money. Such loans may be made payable "on time," or "on call." In the latter form they are payable at the will of the borrower and callable at the will of the bank. "Call loans" are frequently made at

COLLATERAL AGREEMENT

No.....

INSTITUTE NATIONAL BANK

United States Depositary

Boise, Idaho.....

Agreement Upon Deposit of Collateral

The undersigned ha....this day deposited with the INSTITUTE NATIONAL BANK, the following securities:

to be held by said bank, its successors or assigns, as collateral for any and all checks, drafts, notes, indorsements or overdrafts made, or discounts obtained, or other indebtedness incurred by the undersigned or .....legal representatives or assigns, due, or to become due, to said Bank. Said Bank is authorized to sell or dispose of the same at public or private sale without notice, should any part of said indebtedness not be paid when due, and, if at public sale, to become the purchaser thereof.

Witness: .....

....

....

RECEIPT FOR COLLATERAL

No.....

INSTITUTE NATIONAL BANK

UNITED STATES DEPOSITARY

Boise, Idaho.....

Receipt for Collateral

THE INSTITUTE NATIONAL BANK has this day received of.....
the following securities:

to be held by said bank, its successors or assigns, as collateral for any and all checks, drafts, notes, indorsements or overdrafts made, or discounts obtained, or other indebtedness incurred by the said.....
.....or.....legal representatives or assigns, due, or to become due, to said Bank. Said Bank is authorized to sell or dispose of the same at public or private sale without notice, should any part of said indebtedness not be paid when due, and, if at public sale, to become the purchaser thereof.

INSTITUTE NATIONAL BANK,

By.....Cashier.

RECORD OF COLLATERAL

No.....

INSTITUTE NATIONAL BANK

United States Depositary

Boise, Idaho.....

Record of Collateral

Security for indebtedness of.....

.....consisting of the following securities:

Agreement signed by: .....

.....

Receipt given: .....

Remarks: .....

.....

Date released: .....

Receipt taken up: .....

To whom and how delivered:.....

Remarks: .....

lower rates of interest since they provide a bank with a very liquid (easily converted into money) asset. As a matter of fact, call loans outside of New York City cannot always be readily converted into money, as the call loan market conditions in those places do not always permit the lender to enforce immediate collection.

CHATTEL MORTGAGES.—A chattel mortgage is an instrument in writing which states that the mortgagor (the person borrowing the money) has sold to the mortgagee (the person loaning the money) certain specified articles of personal property, with the condition that the property is to revert to the mortgagor in case the debt is satisfied. The list of articles is described in full either in the body of the chattel mortgage itself or in an accompanying schedule. There is always a condition clause included, which usually reads:

Provided Always, and these presents are upon this express condition, that if said party of the first part shall pay or cause to be paid unto the said party of the second part, or to its assigns (if it is a bank), the aforesaid sum of..... .....dollars, according to the terms of his certain promissory note of even date herewith, and payable at the .....Bank, with interest thereon at the rate of.....% per annum from maturity and which note the said party of the first part hereby agrees to pay, then these presents and everything therein contained shall be void, anything herein contained to the contrary notwithstanding. And it is hereby mutually covenanted and agreed between the parties hereto that if default be made in payment of said sum of money or any part thereof, or the interest thereon according to the tenor and effect of said note when the same becomes due and payable, or upon failure to conform to or comply with any of the conditions or agreements herein mentioned,

then the whole sum of money hereby secured, shall at the option of the legal holder or holders hereof become due and payable at once without notice. And it is further agreed that in case of sale or disposal, or attempt to sell or dispose of the goods and chattels here mortgaged, or removal of or attempt to remove the same from the county aforesaid, or an unreasonable depreciation in value, or if from any cause the security shall become inadequate, or the party of the second part shall deem itself insecure, then and thenceforth it shall be lawful for the said party of the second part, or its assigns, or its authorized agent, to enter upon the premises of the said party of the first part, or any other place or places wherein said goods and chattels aforesaid may be, to remove and dispose of the same and all the equity of redemption of the said party of the first part, at public auction or private sale, to the person or persons who shall offer the highest price for same, and out of the avails thereof to retain the full amount of said obligation with the interest thereon, according to the conditions thereof, together with all reasonable cost and expense attending the same, rendering to said party of the first part or his legal representatives, the surplus money (if any there shall be), anything herein to the contrary notwithstanding. And until default be made as aforesaid, or until such time as the said party of the second part shall deem itself insecure as aforesaid, the said party of the first part to continue in the peaceable possession of all the said goods and chattels all of which in consideration thereof, he engages, shall be kept in as good condition as the same now is, and taken care of at his expense, and if from any cause said property shall fail to satisfy said debt and interest aforesaid, said party of the first part hereby agrees to pay the deficiency.

A short affidavit of ownership is sometimes included, which states that the mortgagor is the lawful owner of the personal property described, and that there are no liens upon said property. The chattel mortgage is dated, signed by the mortgagor, his signature being witnessed (some jurisdictions require one witness, others require two), and he acknowledges his signature before a notary public or other officer

authorized and empowered to take acknowledgments. The chattel mortgage should be recorded in the office where deeds are recorded, to make it a matter of legal record and to prevent another mortgage being placed on the same property to take precedence over the one first issued.

CHATTEL MORTGAGES ON CATTLE.—A chattel mortgage on cattle states that the mortgagor, for the purpose of securing payment of his certain promissory note payable to the.....Bank (giving date, amount and due date of note), with interest from maturity at.....per cent per annum until paid, sells and conveys to the bank certain described personal property owned by him. The cattle pledged is described by number, age, color, weight, name, marks or brands, from whom obtained and value. These mortgages usually include the crops planted on the land owned by the mortgagor. The following condition clause is included:

PROVIDED, HOWEVER, If I shall pay such debt and interest, then this mortgage shall be void; but, if default be made in the payment of said debt, according to the conditions of said note, or if during the lien of this mortgage I attempt to sell, remove or otherwise dispose of said mortgaged property, or any part thereof, or if I shall abuse or misuse said mortgaged property, or any part thereof, or shall fail to take reasonable or proper care thereof, whereby the same or any part thereof shall become depreciated in condition or value, or if said property or any part thereof shall be seized under a writ of attachment by virtue of an execution against me; or if at any time the said mortgagee shall, with reasonable cause, deem itself insecure, then and thereupon the said mortgagee or its agent, is hereby authorized to declare the whole debt due, and to enter upon the premises whereon said property, or any part thereof, may be, and take, remove and sell the

same in the manner provided by law, and out of the proceeds the said mortgagee is herein and hereby authorized and empowered to retain such amount as shall be sufficient to satisfy the said entire indebtedness hereby secured, with interest thereon to the time of such sale, $10 attorney's fees, and such expenses as shall have been necessarily incurred in the seizure, keeping and sale of such property, returning to me or my representative any surplus derived from the said sale of the said property after having satisfied the several amounts aforesaid; and it is agreed that the said mortgagee retains in force all mortgages heretofore given securing the same or any part of the indebtedness hereby secured.

These mortgages should be signed and executed in the manner described in the preceding paragraph.

HANDLING COLLATERAL LOANS.—The rate on call loans in New York City ranges ordinarily from 1% upward, depending upon the amount of money held by the banks and their willingness to accept offered collateral. "Collateral loans" differ from "discounts" in that the full amount of the note is generally advanced, interest being paid at maturity or on call; and little dependence is placed on personal credit ratings. They are quite alike in the methods followed for making, recording and collecting the loan, as explained elsewhere. Collateral loans are generally made against diversified collateral, more especially if the loans are for large amounts. Banks prefer securities which are actively traded in, and are more willing to accept units of lower priced securities than very valuable ones, as the fluctuations in value are not liable to be so great. It is the duty of the holder of collateral to protect it. A bank must exercise ordinary care and diligence in keeping bonds deposited as collateral. Reasonable diligence is required

DAILY STATEMENT OF LOANS AND DISCOUNTS

Loans and Discounts_____ **192**_____

	MAKER	INDORSER AND COLLATERAL	AMOUNT	REMARKS	

when notes are held, to protect them from becoming outlawed. After the loan is approved, the securities are verified and listed, and the details of the loan are entered upon the register and also upon the collateral ledger (according to owners). After the borrower receives the proceeds of the loan, the collateral is filed away in envelopes arranged alphabetically according to owners. This permits ready comparison with the collateral ledger, which is of the loose-leaf variety. The person that is responsible for watching the collateral loans in order to avoid depreciation in the collateral deposited, must keep informed upon values of collateral and also have the bank's holdings of each kind of collateral recorded in a form convenient for ready reference and location of owners, in order that they may be notified to strengthen their accounts by a part payment or by an addition to the collateral deposited. This is a most important duty, as the bank should always have a comfortable margin of collateral, say 20%, over the amount loaned. Substitutions of collateral are always permitted if the newer securities are acceptable to all parties concerned. Part payments and partial release of securities are very common.

LOSS OF NOTES.—If a note is lost or stolen the maker must still pay when it becomes due. A person buying a lost or stolen note has a right to collect on it if he is an "innocent purchaser," and if the note is so indorsed as to be negotiable. The purchaser must not be aware that the note had been lost or stolen and really belonged to some one else. If A

gives his note to B and the note is lost by B or stolen from B, then A must pay B if the latter gives him what is known as a "bond of indemnity"—an instru- A is required to pay on it, then B will return the money ment which states that if the paper turns up later and he has received.

ACCOMMODATION NOTES.—An accommodation note is one which is signed as maker or indorser by some party who has received nothing for signing his name to it. He lends his name to the maker to enable the latter to get his consideration (since bills and notes are contracts they are governed by the same rules of contracts elsewhere discussed) from the payee. It is a benefit to the payee because he can more easily transfer it to some other party by indorsement and secure money on it. Since the accommodation maker has received nothing for his signature the person for whom he signed as maker or indorser cannot make him pay as a "maker," even though his name is on the note as such. But if a holder for value (one who has in good faith paid something valuable for the note) gets the note he can make the accommodation party pay him, even if when he took the instrument he knew him to be only an accommodation party. A wishes to borrow $1,000 at the bank. He asks B to lend him his credit. So A makes a promissory note payable to B, who indorses it in blank. A then takes the note and discounts it at the bank. Or suppose A had been the ordinary payee but the bank would not take the note on A's and B's credit. Then A may get C to indorse it in blank and then A will take it to the

bank and discount it. C is the accommodation indorser for A, the payee. If C's signature appears before that of A he is termed an "irregular indorser." Having signed for the accommodation of the payee, he is liable to all parties after the payee. For illustration: A made a note to his own order and indorsed it for the accommodation of B, who then indorsed it and negotiated it to P. At maturity the note was not paid and A is sued for the amount. He will be liable, and will not be permitted to show the existence of an oral agreement with B that B alone was to be liable on the note. In short, accommodation parties are liable to holders for value of the notes they sign, but are not liable to the party for whose accommodation they sign.

BANK DISCOUNT.—Suppose A wishes to borrow $1,000 from his bank. He gives his promissory note for the amount, due in sixty days. Instead of collecting interest when the note becomes due the bank will deduct the interest in advance. Suppose the interest to be 6%; the bank will pay him $990. In this way the bank is really getting more than it would by taking the 6% when the note becomes due, for then it would be getting 6% on $1,000; since A must pay $1,000, the bank is really getting interest for sixty days on $990—or 6.065%. Similarly, A might discount a note of C's which he had in his possession. Banks usually figure the discount on notes for the actual number of days which a note is to run. If a thirty day note fell due on a Sunday, the bank would charge thirty-one days' interest, and, of course, col-

lect the note on Monday. Many banks compute the discount on the basis of 360 days to the year. Bank discount (the sum the bank gets) is not usury, even if the bank gets slightly more than the legal rate of interest. A "discount" is really a loan in which the interest is paid in advance instead of at maturity. The "discount" is also the amount deducted from the face of the note. "Discounting" is the process of securing money on commercial paper (bills as well as notes) by paying interest in advance.

DISCOUNT RECORDS.—The discount clerk records the note or notes in a "Discount Register" by consecutive numbers under the date when discounted, with all details as to indorsements, interest, amount and maturity. He then enters the notes in a "tickler" or "maturity calendar" under their due dates, with a complete description. This is designed to avoid errors in presentation, since proper presentation on the due date is necessary in order to hold indorsers liable. Another record is then made in the liability ledger. This ledger is kept so that the bank may know at any time the liability to the bank of any of its customers, either as maker or indorser. National banks and some State banks are forbidden by law to lend more than 10% of their capital and surplus to one man or company. The liability ledger enables them to make certain that the rule is not accidentally violated, and to see that they do not unintentionally take more paper issued or indorsed by one individual, firm, or corporation than they feel is a safe risk. The notes are then filed away in wallets, either according to number or

DAILY DISCOUNT BOOK

No.	Date of Discount	Promisor or Drawer	Drawee or Acceptor	Endorser or Surety
				(Book Bound Here)
Left Hand Page				

FIRST NATIONAL BANK

When Due	Where Payable	Date of Paper	Discount Time	Amount	Discount	Amount	For Whom Discounted
			Month Day	Dolls. Cts.	Dolls. Cts.	Dolls. Cts.	
(Book Bound Here)							
Right Hand Page							

according to due dates; usually the latter. The transcript of the day's discount record is sent to the credit department for its information. The total of bills discounted, together with a record of any other transactions conducted by the discount teller, is sent to the general bookkeeper. Due notes are paid through a note teller, or the collection department, or the discount department, according to the plan of the bank's organization. To use a separate note teller is especially to be desired when there is a large volume of general collection business, and, incidentally, it separates the handling of cash from the keeping of discount records. Some of the factors that determine whether the bank will grant a discount are (1) the condition of the bank's funds; (2) the claim of the applicant to accommodation; (3) the credit of the applicant; and (4) the rate of discount on the loan.

CHAPTER V

Drafts and Acceptances

WHAT IS A DRAFT?—A "draft" is a written order drawn by one party called the drawer on another party called the drawee for the payment of money to a third party called the payee, the amount to be paid from funds which the drawee owes to the drawer. The terms "drafts" and "bills of exchange" are often used in referring to the same things. There is not a great deal of difference between them, although such instruments used in interstate or international transactions are termed "bills of exchange," and in transactions with foreign countries are usually drawn in duplicate. When either "drafts" or "bills of exchange" are referred to in this chapter, the remarks made will apply to both drafts and bills. For instance, A owes B $1,000. C owes A $1,000. So A gives B a piece of paper which orders C to pay $1,000 to B. Drafts are valuable chiefly because they are negotiable—that is, B could indorse the above draft to D, who would then have a right to the $1,000. Drafts frequently pass through many hands before they are presented for payment.

THE PARTIES.—There are always three parties to a draft: (1) the drawer, (2) the drawee (or payer), and (3) the payee. Only a drawee may become an acceptor. In the accompanying illustration A is the drawer, C the drawee, and The First National Bank the payee. The drawer is the maker or person

SPECIMEN FORM OF DRAFT

NO PROTEST TEAR THIS OFF BEFORE PRESENTING

PA.,_____ 19

_____ *Pay to the*

Order of THE FIRST NATIONAL BANK $_____

_____ *Dollars,*

Value received, and charge the same to account of

TO C _____

A _____

_____

Before the words "pay to" the time when the draft is due should be inserted—as "at sight" or "30 days after date."

who orders one person to pay another. The drawee is the person who is ordered to pay the money. The payee is the person to whom the money is to be paid. In writing a draft it is customary, though not necessary, to place the name of the person who is to pay it—the drawee—in the lower left hand corner. (Checks are a special kind of bill of exchange and are considered in another chapter.) The bill is addressed to the drawee. A draft drawn payable at sight or on demand should be paid by the drawee when the draft is first presented to him. If the draft is a time bill, drawn payable a certain number of days after sight, a certain number of days after date, or at some stated future time, the draft will be presented to the drawee who will be asked to show his intention to honor the bill—that is, to pay it—at maturity.

SIMPLE FORM OF A BILL OF EXCHANGE

Chicago, Ill., May 22, 1922.

Pay to the order of Norman T. Detwiler One thousand dollars ($1,000).

PAUL B. RITTER.

To William F. Hayes,
211 Prairie St.,
Cincinnati, Ohio

This intention is usually shown by writing the word "accepted" together with the date, place of payment and the drawee's signature across the face of the bill. If he does this, he becomes the "acceptor." The only instance of the acceptance of a sight bill is

really not entitled to the use of the word "acceptance," as it means simply that the drawee writes on the bill instructions to his banker to have the draft paid and charged to his account. Since this is to be effected on the same date the time element that we associate with the word "acceptance" is lacking.

KINDS OF DRAFTS.—We have seen that there are three parties to a bill. A party may make a bill payable to himself and thus, while there will technically be three persons involved, there will actually be but two people—the drawer and the drawee. The

BANK DRAFT

No. 801 Tacoma, Wash., May 22, 1922.
Pay to the order of William G. F. Birmingham
One thousand and eighty-one 50-100 ($1,081.50)
Dollars.
(Signature)
FIRST NATIONAL BANK OF TACOMA
JAMES B. PRICE,
To Corn Exchange Bank, Cashier.
Chicago.

drawer in this case is also the payee. Drafts may be divided into various classes. The usual qualifying terms are personal, collateral or stock, and bank drafts. Personal drafts are orders drawn on one person by another to pay a third person. In our banks, and especially in the collection department, these are really the dunning orders for payment which are

drawn by firms when their customers have not paid their bills at the due time, or they are the kind of draft drawn by a son in college on his father in the hope that it will be paid. It is true that personal drafts are sometimes used for legitimate transactions involving the actual transfer of funds owed. These cases are in the minority and in many instances carry collateral such as stocks, bonds, warehouse receipts or bills of lading attached as security. Bill of lading drafts are a usual form of collateral draft. In the larger cities we see many stock drafts with negotiable shares of stock attached. The advantage of this kind of transaction is that both the buyer and seller are protected throughout as no funds are paid until the security is in hand. The term "bank draft" is in common use and refers to a draft drawn (always at sight—on demand—at presentation) by one bank on another, directing the latter to pay a certain sum of money to a third party. It is simply an order which one bank draws on another bank. Practically all banks keep funds on deposit in banks in other cities, especially in the larger financial centers. In this way they are able to meet the demands of customers who often wish a form of payment that will be accepted without question. Bank drafts pass practically as cash almost everywhere in the country. Drafts on New York are known as "New York Exchange." Suppose that Kane & Co. of Toledo wish to send $1,000 to a firm in Buffalo for goods to be shipped immediately. They send to their bank in Toledo a check for the amount, only in place of the payee's

name they write the words "New York draft." Their bank then proceeds to make out a draft on its New York correspondent, payable to Kane & Co., for $1,000. Kane & Co. indorse the draft, making it payable to the Buffalo firm, and mail it to the latter. By having the draft drawn to themselves, instead of to the Buffalo people, Kane & Co. have an instrument

CUSTOMER'S APPLICATION BLANK FOR DRAFTS

DRAFTS WANTED

The National Bank

Bought by.....

PAYABLE TO THE ORDER OF	ON WHAT CITY	AMOUNT	

which serves as direct evidence of the transaction, and when indorsed and transferred acts as a voucher. Or Kane & Co., instead of having themselves made the payee, might have had the Buffalo firm made the payee. Bank drafts are much used by business men to send remittances of money from one part of the country to another, and are probably used more for that purpose than any other method of payment. Nearly all banks furnish application blanks for drafts.

A bank draft so called, being drawn on a bank is really a check, but general custom has given its present name which will probably remain. Drafts, with the exception of bank drafts, may be either "sight" or "time." Sight drafts are payable at sight or demand; time drafts are payable either at a fixed time after sight or after date, or after some event which is sure to happen.

USES OF DRAFTS IN COMMERCE.—Drafts are much used by business men to collect accounts. For instance, A, living in Minneapolis, owes B, a dealer in Chicago, $500 for goods purchased. If A does not send the money after a certain time, which is usually specified in the invoice, then B may draw a draft on A for the amount due. It would be in substantially this form: "To A. Pay to C $500. B." C would very often be a bank. It might in this case be a Chicago bank, or B might have drawn it payable to some bank in Minneapolis, if he had regular business dealings with a bank in that city. If it were a Chicago bank that bank would have indorsed it to some bank in Minneapolis and sent it there for collection. B has really made the Chicago bank his agent for the collection of the money. Or he may have sent it direct to the Minneapolis bank. In either case, the Minneapolis banker, when he gets the draft, will send it around to A by one of the clerks whose business it is to look after collections. If the draft is a time bill, and if A is willing to pay the draft, he writes across its face "accepted," with the date, and signs his name. Of course, he is not bound to accept

NOTICE OF IRREGULARITIES IN DRAFT DRAWN ON A BANK AND PAID BY IT

ST. LOUIS, MO. _____ 19__

_____

_____

DEAR SIRS:—YOUR DRAFT ON US NO. _____

FOR $ _____ WAS PRESENTED TO US TODAY WITH THE IRREGULARITIES NOTED BELOW:

IRREGULARITIES

_____

_____

_____

_____

_____

WE PAID THE DRAFT, HOWEVER, BELIEVING THIS TO BE IN ACCORDANCE WITH YOUR WISHES AND WE WILL ASK YOU TO KINDLY CONFIRM OUR ACTION.

YOURS TRULY,

CONFIRMATION.

DATE _____ 19__

TO THE INSTITUTE NATIONAL BANK,

DEAR SIRS:—

WE HEREBY CONFIRM YOUR ACTION IN PAYING THE ABOVE DESCRIBED DRAFT.

YOURS TRULY,

_____

ADDRESSEE WILL PLEASE SIGN AND RETURN THIS SHEET

it, but after he does accept it he is obliged to pay it when it becomes due. In the case of a "sight" or "demand" draft, acceptance should be shown only by payment. Suppose A had lived in some place without a bank. Then B could have sent the draft to the postmaster or some other responsible person for collection. Very small charges are made by banks for collecting bills of exchange. Suppose this was a draft payable in thirty days. B may not wish to wait so long to get his money. In that case, the bank that he has constituted his agent may, after the draft is accepted, if it considers the advance safe, discount it—that is, credit B with the amount of the draft less the interest on it, calculated from the date the draft is discounted to the date the draft is due.

WHAT DRAFTS MUST CONTAIN TO BE NEGOTIABLE.—Not all orders are negotiable—i. e., capable of passing from one person to another. A simple order, "pay to X," would not be negotiable, for such an order must be paid to X and to X alone. It is seldom that such a bill is issued. Usually bills are made in such a way that one person can transfer his rights to another person. That is one reason why they are so important in the business world. There are certain qualities or requisites which a bill or draft must contain to be negotiable. These are as follows:

(1) It must be in writing and signed by the drawer.

(2) It must contain an unconditional order to pay a sum certain in money.

(3) It must be payable on demand or at a fixed

or determinable future time.

(4) It must be payable to order or to bearer.

(5) The drawee must be named or otherwise indicated with reasonable certainty.

A BILL OF EXCHANGE MUST CONTAIN AN ORDER.—It must in imperative terms direct the drawee to "pay to A" the sum specified. There must be no qualifying statements. A request to pay, or an authority to collect money due, is not an order, though it is often hard to tell from the language used just what is meant. An order implies in its terms a right to command and a duty to obey. Words of politeness, however, will not deprive an order of imperative quality. "Please pay X" is a common phrase, but is held to be an order. The following was held to be a bill of exchange: "Mr. Nelson will oblige Mr. Webb by paying J. Ruff, or order, twenty guineas on his account." The order must be unconditional on its face. If a bill was to be payable only if some specified event should happen it would be of little value in business, since the event might never happen. Even if the event should afterwards take place the instrument would not then become a bill. Suppose A has two accounts with the firm of B and draws a draft on B in the following words: "Please pay C, or order, $500 and charge account No. 1." Is this a negotiable instrument? It has been held to be. There is an unqualified order to B to pay C, or order, the $500 and the words "charge account No. 1" are only an indication to B of the account to which the bill is to be charged after it is paid. The fact that the considera-

tion may be stated does not make the instrument conditional. Suppose the above bill had read: "Please pay C, or order, $500, account five typewriters." This is still an unconditional order to pay C, or order, and the statement of the consideration does not affect it.

A BILL OF EXCHANGE "MUST BE PAYABLE ON DEMAND OR AT A FIXED OR DETERMINABLE FUTURE TIME."—There must be certainty as to the time when a bill will be due, or no one would take it from anybody else. An instrument is payable on demand (1) where it is expressed to be payable on demand, or at sight, or on presentation; or (2) where no time of payment is stated. An instrument is payable at a fixed time if it says, for example, "30 days after date." An instrument is payable at a determinable time when the date can be fixed with reference to the happening of an event certain to happen. Death is sure to come, though the time of its coming is uncertain, so an order to pay thirty days after death would be binding. Suppose an order said "pay to X $500 when he becomes twenty-one years of age." This would not be negotiable, since X might never become twenty-one.

THE AMOUNT TO BE PAID MUST BE CERTAIN.—If the bill reads "$500 and accrued taxes," then it would not be negotiable, for the amount payable at maturity is uncertain. But stipulations for interest at a given rate, or for the payment of costs of collection and attorney's fees, if not paid at maturity, do not affect the negotiability of a bill. The

order to pay must be to pay money. The money must be that of the country where the order is payable. For instance, a note payable in Canada but made in Illinois must be payable in Canadian money. By business customs the following terms mean money: "currency" and "current funds," so a bill containing an order to pay $500 in "currency" or "current funds" will be negotiable. A particular kind of legal tender may be designated, such as gold eagles or pennies. There must not be an order to pay money and (or) something else. An order "pay X $500 and give him my horse Black Star," or "pay X $500 or give him my horse Black Star" will not be negotiable—the payee or anybody to whom the bill is indorsed must be certain of getting money alone if he wishes it. But if X was to have the choice of taking the money or the horse it would be all right. In other words, if the maker of a note has the election of paying money or giving something else, the note is not negotiable. If the holder has the option of requiring something to be done in lieu of the payment of money, the note is negotiable, because the holder can always demand money.

INDORSEMENTS.—A draft may be transferred from one person to another by indorsement when it is made payable to order. When payable to bearer no indorsement is necessary except that it is customary for banks to induce, as far as possible, the person receiving the proceeds of a bearer draft to indorse the draft in order that there may be evidence showing who received the money. The person who

SPECIMEN FORM OF DRAFT REGISTER

DRAFTS DRAWN ON

DATE	IN FAVOR OF	NUMBER	AMOUNT	EXCHANGE	TOTAL EXCHANGE	TOTAL DRAFTS	BY WHOM PURCHASED
	Am'ts Brought Forward						

makes the indorsement is the "indorser"; the one to whom he indorses it, is the "indorsee." If an instrument is payable to the order of two or more payees or indorsees who are not partners, then all must indorse when the bill is given to any one else, unless the one who does indorse has authority to indorse for the others. Thus, a bill is payable to A and B. A, without authority from B, indorses it to C. C, however, does not get the title to the bill, because the transfer is not the act of both owners, A and B together being the owners of the bill. Suppose the bill had been payable to a firm. If one partner indorses it in his own name no title passes to the indorsee, even if the one partner has been authorized by all the other partners to indorse it, for the indorsement is not the indorsement of all the owners. The proper way is to indorse it in the firm name. To be effective an indorsement must be in writing on the draft. It must be an order to pay the indorsee (who is also known as the "transferee"). It must direct the payment to the transferee of the whole sum due on the instrument. Of course, there is no objection to indorsing a draft after part of the sum due has been paid—provided that the whole of what is yet due is directed to be paid. The draft with the indorsement on it must be "delivered" to the transferee. "Delivery" means a physical transfer of the bill. "Indorsement," as used in this connection, therefore means indorsement and delivery, both of which must occur. Suppose A, the payee of a bill, wrote on it: "Pay to the order of C (Signed) A," and put it in his safe. The indorsement

in such a case is not complete. Let us imagine that C breaks open the safe and steals the draft—the indorsement is then complete. Of course C himself, because he is a thief, cannot take advantage of his theft by trying to collect on it. But he can transfer it to an innocent purchaser who may collect on it.

NOTICE BY BANK OF DRAFTS DRAWN

The First National Bank

.....192

.....

We have drawn the following drafts on you to day

NO.	ORDER	AMOUNT

Yours truly,

Cashier.

(Many banks still use this form but the city banks are in some cases discouraging the use of these notices to save what may be unnecessary work.)

DIFFERENT KINDS OF INDORSEMENTS. —Indorsements may be "special," "in blank," "restrictive," "qualified" or "conditional." A special indorsement names the person to whom, or to whose order, the instrument is to be made payable; the indorsement of such indorsee is necessary to pass the bill to anybody else. Special indorsements are like the following: "Pay to X (signed) A"; "Pay to X or order (signed) A"; "Pay to the order of X (signed) A." A bill can be passed by indorsement only when drawn in negotiable form, usually distinguishable by making payment to the "order of" or to "bearer." "Pay to X" is not negotiable as the form of indorsement does not give X the right to transfer his title. An indorsement in blank occurs when the payee writes his name on the instrument without naming any indorsee. As long as the payee's indorsement remains "blank" the draft can be passed from one person to another by delivery and for all practical purposes can be regarded as payable to bearer. However, any one who gets hold of a draft indorsed in blank can change it from a blank to a special indorsement. A "restrictive" indorsement is one which either (1) prohibits the further passing of the bill or (2) makes the indorsee the agent of the indorser or (3) gives the title in trust to the indorsee for the benefit of some other person. "Pay to X only," "Pay to X for collection for my account" and "Pay to X for account of M" are examples respectively. To make an indorsement restrictive there must be words in the indorsement itself which specifically render it so. Indorsements making

the indorsee agent or trustee of the indorser are the most common kind of restrictive indorsements. Indorsements "for collection" are perhaps the commonest form of restrictive indorsement. This sort of indorsement notifies any one who may take the bill from X that X is not the real owner, but only an agent. So if X should pass it to Y, and Y get any money on it, A would have a right to all Y had received. When A indorses a bill to X, either by a special or blank indorsement, he guarantees that if the maker or acceptor (drawee) does not pay, he will. Suppose he does not wish to assume this risk. Then he can give a "qualified" indorsement. "Without recourse" and "not holden" are examples of such indorsements. The only effect is to do away with his obligation to pay if the maker or drawee does not. The bill can still be negotiated. The qualified indorser guarantees the genuineness of the bill and that he is the rightful owner. The following would be a "conditional" indorsement: "Pay to X, or order, if I become captain in the New York Infantry within sixty days. (Signed) A." The party required to pay the instrument may disregard the condition and pay the indorsee or his transferee whether the condition has been fulfilled or not. But the indorsee would hold the bill or any money he might get from it subject to the rights of the person who indorsed conditionally. In the above case let us suppose that P, the payee, paid the amount of the note to X. A does not become a captain. He cannot collect again from P, but he can get from X the money that the latter received from P.

EXAMPLES OF INDORSEMENTS

Draft: To Carter & Co: Pay to the order of Allan Young $500. (Signed) WENDELL BURNS.

Blank Indorsement: ALLAN YOUNG.

Special Indorsement: Pay to order of James Knight. ALLAN YOUNG.

Qualified Indorsement: Without recourse. ALLAN YOUNG.

or

Pay to the order of James Knight, without recourse. ALLAN YOUNG.

Restrictive Indorsement: Pay to James Knight only. ALLAN YOUNG.

or

Pay to the order of Bank X, for collection for my account. ALLAN YOUNG.

or

Pay to the order of James Knight for the use of George Green. ALLAN YOUNG.

Conditional Indorsement: Pay to James Knight or order if..... ALLAN YOUNG.

Waiving conditions: Waiving protest. ALLAN YOUNG.

or

Pay to the order of James Knight, waiving protest. ALLAN YOUNG.

There may be successive indorsements as follows:

Pay to James Knight or order. ALLAN YOUNG.

Pay to Herog & Kastner or order. JAMES KNIGHT.

Pay to George Vincent or order. HEROG & KASTNER.

etc., etc.

Or if X had not collected from P then A could get the bill from X or from anybody to whom it had come.

INDORSEMENT "FOR COLLECTION."—Sometimes a person holding a bill finds that it is necessary to send it for collection to some place where there is no bank. Then he must ask some one else to collect it for him. If he knows the person very well he may simply indorse it to the other person, but there is always a slight danger that the other person would pass it on, which he could legally do, so it is best in such cases to add the words "for collection" to the indorsement. This checks any further passing of the bill, since any one to whom it is offered can easily see that it was the business of the person to whom it was indorsed to collect it for the indorser. Indorsement "for collection" is also used when there is doubt concerning the "goodness" of a check or a draft payable elsewhere at a future date. Many banks refuse to accept drafts indorsed "for collection." Suppose X has indorsed to bank A "for collection." Bank A, to make collection easier, employs bank B to do the actual collecting. Bank B then holds the money it gets for X's benefit, just as bank A would have done. Because of past experience many banks refuse to accept items indorsed "for collection" from any subsequent indorser. If bank A were to receive an item from bank B indorsed by C, a customer of bank B, "for collection," the collecting bank A would have no right to retain the proceeds of the item for any claim it had against bank B. Therefore, some clearing houses refuse to clear items bearing such indorsements.

ACCEPTANCES.—Until the drawee of a bill accepts it he is under no liability. Of course, the drawer might sue the drawee for not honoring (accepting) the bill, but the holder of the bill could not make the drawee pay him. An acceptance usually takes the form of writing on the face of the bill "accepted" and the drawee's signature. Only the drawee can accept—he then becomes the "acceptor." His acceptance really means that he says: "I am indebted to the drawer for the sum named in the bill and hereby guarantee that I will pay the bill according to its terms and charge the amount to the drawer's account." In other words, he makes a contract that he will pay the bill according to the terms of his acceptance. The acceptance must be in writing. It need not be on the bill, but may be on a separate piece of paper or even by telegraph. A prospective drawee may make a contract with the drawer to accept a bill to be drawn. Whether oral or in writing this contract is binding. The fact that a bill has been accepted adds, of course, to its negotiability, for people are more willing to take it. When the bill is presented to a drawee for acceptance he is allowed twenty-four hours to decide whether he will accept it or not. His failure to return the bill, or its destruction in that period, causes an "acceptance by conduct," which is legally binding. When a draft for acceptance is accompanied by collateral which is to be delivered on payment or on acceptance as the case may be, the bank must act according to the instructions of the owner of the draft, and in any case should retain the

collateral when leaving the bill for acceptance. When a draft is sent "with exchange" the drawee pays the

FORM OF COMMERCIAL SIGHT DRAFT

$500.00 Minneapolis, Minn., July 3, 1922.

At 30 days' sight—Pay to the order of Federal City Bank of Minneapolis Five hundred and no/100 Dollars.

With Exchange.

Value received and charge to account of

To Bruce Ellsworth,
Winona, Minn.

Fred W. Baird.

A SAMPLE ACCEPTANCE

"Accepted July 10, 1922.

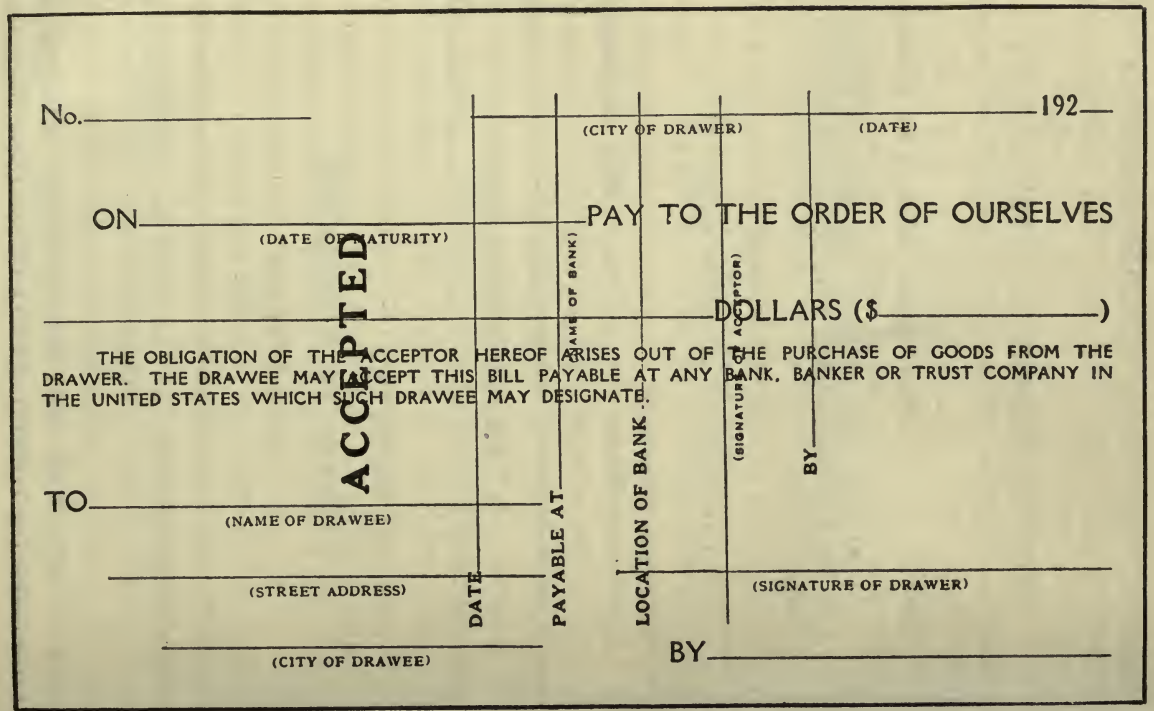
Payable at Flour Exchange Bank.

Bruce Ellsworth."

These words would be written across the face of the bill by Ellsworth.

face of the draft and the exchange charges also. Otherwise the collecting clerk of the bank deducts the

Trade Acceptance

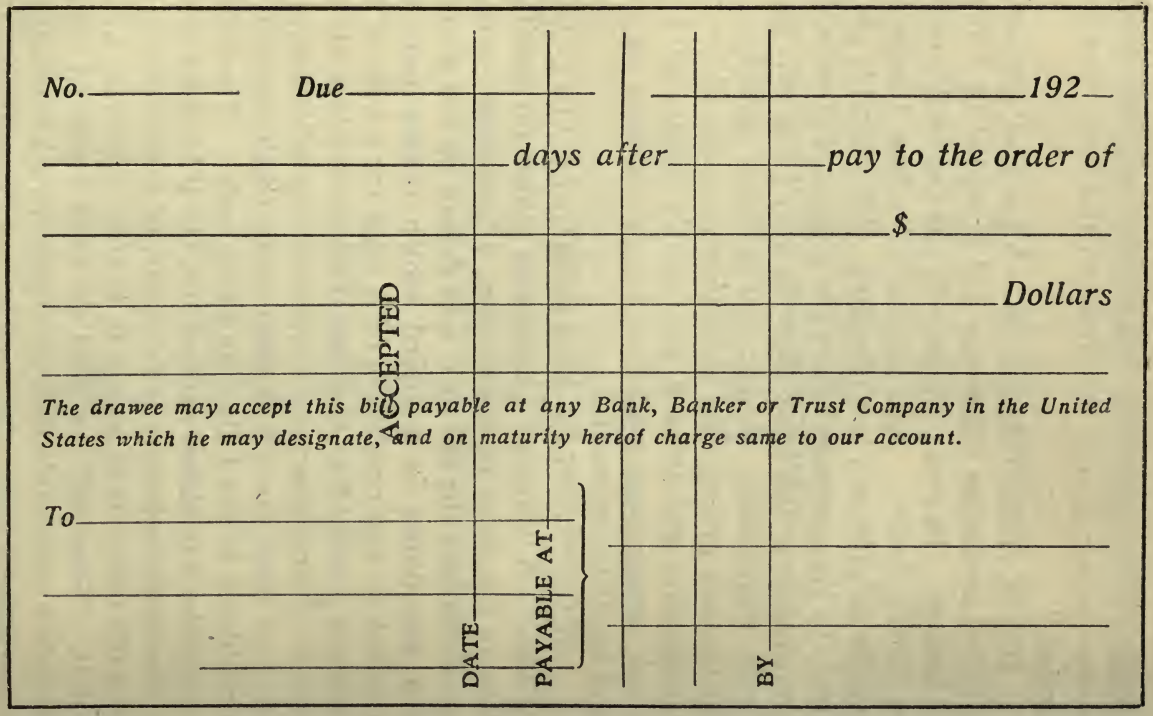

No.
192
(CITY OF DRAWER)
(DATE)
ON
(DATE OF MATURITY)
PAY TO THE ORDER OF OURSELVES
DOLLARS ($)
THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER. THE DRAWEE MAY ACCEPT THIS BILL PAYABLE AT ANY BANK, BANKER OR TRUST COMPANY IN THE UNITED STATES WHICH SUCH DRAWEE MAY DESIGNATE.
ACCEPTED
DATE
PAYABLE AT (NAME OF BANK)
LOCATION OF BANK
(SIGNATURE OF ACCEPTOR)
BY
TO
(NAME OF DRAWEE)
(STREET ADDRESS)
(CITY OF DRAWEE)
(SIGNATURE OF DRAWER)
BY

charges when remitting the money collected to the person who has sent the draft to the bank "for collection."

BANK ACCEPTANCES.—A bank acceptance is a bill of exchange drawn on and accepted by a bank or banker. Its real purpose is to use the bank's credit to obtain funds. Acceptances of prime banks are readily salable at a low discount. The bank is given funds by its customer before the acceptance comes due and therefore the bank extends only its credit for a small commission charge. The bank usually has documents giving title to the goods covered by the transaction and runs a very small chance of loss. Bank acceptances are in very high standing as safe and liquid investments.

ACCEPTANCES ARE GENERAL OR QUALIFIED.—A "general" acceptance makes no qualification to the order of the drawer; a "qualified" acceptance changes the bill as it was drawn by the drawer. An acceptance is qualified which makes payment depend on any condition, or is only for a part of the amount specified, or changes the time or place of payment. The holder may require an unqualified acceptance or treat the bill as dishonored (dishonor will be considered in the following paragraph). The holder may take a qualified acceptance, but if he does so the drawer and indorsers are discharged from liability on the bill unless they assent to it after becoming aware of it. They will be held to have assented unless within a reasonable time after acquiring knowledge of the circumstances they notify the holder that they

Bankers Acceptance



have not thus assented. Many business men dislike to have drafts drawn on them. It is best, therefore, not to draw on a person unless you have notified him of your intention to do so.

DISHONORING A DRAFT.—A person who refuses to pay or to accept a draft drawn on him is said

STANDARD "NOTICE OF DISHONOR" FORM USED BY NOTARIES

Chicago, Ill., Sept. 11, 1921.

PLEASE TO TAKE NOTICE that a draft drawn by Ralph Lyle for $1,000 and interest, dated July 10, 1921, payable at the Union National Bank, Sept. 10, 1921, and indorsed by you, has been dishonored, payment having been duly demanded at its maturity and refused, and that said draft has therefore been PROTESTED for non-payment and that the holders look to you for payment thereof, and of all damages, costs and charges thereon.

Yours very truly,

WILBUR COLLINS, Notary Public,

Union National Bank.

To NORMAN SPAULDING.

to have "dishonored" it. The drawer, of course, must make good any drafts he has given to any one which have been dishonored. When a draft is dishonored the holder is entitled to immediate payment from the drawer or indorsers, even though it may not be due for months or years. The drawer and indorsers must be

notified either orally or in writing that the draft has been dishonored, and steps must be taken within the same day to give them the notice they are entitled to receive. Drawer or indorser may waive the requirement of notice. But a failure to notify them, unless they waive their right, will discharge them, except as against a later innocent purchaser (one who did not know the bill had been dishonored).

NOTICE OF DISHONOR.—The notice of dishonor may be in writing or oral, and may be given personally or through the mails. It may be quite informal, and is sufficient if it fairly identifies the draft and indicates that it has been dishonored. The notice may be given by the holder or any one who would be liable to the holder and who upon taking it up would have a right of reimbursement from the party to whom he gives notice. The holder or other person may give the notice personally or it may be given in his behalf by some one else.

PROTEST OF DRAFTS.—Protest is a declaration by a notary public in behalf of the holder of a bill that it has been dishonored and a "protest" that any loss arising shall be borne by the drawer or indorsers. In the case of foreign bills (drawn in one State and payable in another), protest is absolutely necessary. In the case of an inland bill (payable in the same State it is drawn in), it may be made. In most banks some clerk is a notary. The protest is required to be annexed to the bill or must contain a copy of it, and must be under the hand and seal of the notary making it, and must specify:

SPECIMEN CERTIFICATE OF PROTEST

United States of America,
State of Illinois, City of Chicago. } ss:

On the 19th day of March, 1922, at the request of the Union National Bank, I, Wilbur Collins, a Notary Public of the State of Illinois, duly commissioned and sworn, did present the original Draft hereunto annexed, at the Union National Bank, No. 410 State Street, Chicago, the place at which it was payable and demanded payment, which was refused,

.....

.....

.....

Whereupon, I, the said notary, at the request aforesaid, did Protest, and by these presents do publicly and Solemnly Protest, as well against the Indorser of the said draft as against all others whom it doth or may concern, for exchange, re-exchange, and all costs, damages, and interest already incurred and to be hereafter incurred for want of payment of the same.

Thus done and protested in the City of Chicago aforesaid.

WILBUR COLLINS, Notary Public,
(Notary's) Union National Bank.
(Seal)

(1) The time and place of presentment.

(2) The fact that presentment was made and the manner thereof.

(3) The cause or reason for protesting the bill.

(4) The demand made and the answer given, if any, or the fact that the drawee or acceptor could not be found.

If neither the place of drawing nor the place of payment appears on the bill the holder may treat it as an inland bill. This relieves him of the necessity of determining at his peril whether a protest is necessary. To fix the liability of the drawer and indorsers of bills of exchange there must be for both inland and foreign bills a due presentment for acceptance or payment and due notice of dishonor. In the case of foreign bills an additional act—protesting the bill—must be performed. Most banks in handling items give little consideration to whether a bill is a foreign bill or not. If the item belongs to them they will always protest if there are indorsers, and will generally not protest if there are no indorsers. If the bill comes to them from a customer or correspondent they will obey whatever instructions they have received regarding protest, and, in the absence of instructions, will generally protest all items of $20 and over. Most banks, when in doubt, protest, although, as has been said, this is legally necessary only in the case of bills drawn and payable in different States.

CHAPTER VI

Exchanges and Transfers

CLEARINGS AND CLEARING HOUSES.—In a small town having but one bank, all of the checks growing out of purely local business are drawn upon that institution. Let us suppose that A and B are both depositors in the same bank. A gives B his check for $100 in payment for a horse. It is not necessary for B to present the check, receive the money and then redeposit the cash to his own credit. Instead, he deposits the check, the bank crediting his account and charging the account of A. The same process is being followed by all the depositors in making settlements with each other. No actual cash changes hands; there is merely an offsetting of debits with credits on the books of the bank. This is utilizing the "clearing" principle, which is to offset debits with credits and pay only the resultant balance. Banks make use of this principle in settling accounts with each other. The agency through which they avoid the constant transfer of money among themselves is the clearing house. The term is used to apply either to the building used for this purpose or more generally to the organization or association of the banks united together for this and other purposes. The objects and purposes of a modern clearing house association might be stated as follows: (1) To facilitate the handling of business between its members. (2) To foster and encourage conservative, safe and

sound banking methods and banking practices. (3) To use its influence in matters of common interest to its members, and for the general good of the community wherein it is located. (4) To perform such other services as are agreed upon by its members and which are not in contravention of Federal or State laws.

CLEARING HOUSE FUNCTIONS.—In its practical sense the clearing house represents a plan rather than a tangible thing. Let us suppose there are five banks which are members of a clearing house. At the end of the day's business each member finds itself with checks drawn upon the other four. The checks of each are indorsed with the bank stamp, enclosed in a separate envelope for each bank and a total of the checks is listed on the outside. The totals are then listed opposite the bank names on a double column sheet and a footing is struck. In theory each bank assumes that these checks are not payable by the individual banks but by the "clearing house." Therefore, at a fixed time, usually about ten o'clock A. M., each bank sends a messenger to the clearing house with its checks against the other banks. In a small town the office of one of the members is used as a clearing house and an officer of that bank acts as "manager." The packages are then exchanged. Each clerk writes opposite the proper names, the amount of the checks on his bank presented by the others. These amounts are added up and the smaller amount is subtracted from the larger. If the messenger receives more checks on his own bank than his bank had on the others, then he is a "debtor." If the reverse is

TYPICAL CLEARING HOUSE STATEMENT

STATEMENT OF MEMBER NO....

.....CLEARING HOUSE

INSTITUTE NATIONAL BANK

Banks	No.	On	From	Brought to C. H.	Balances		Errors in List	Errors in Statements	Missing Indorsements	Wrong Clearings	No.
					Dr.	Cr.					
First National Bank	1										1
Union State Bank	2										2
Merchants National Bank	3										3
Farmers Trust Company	4										4
City National Bank	5										5
People's State Bank	6										6
Town & County Bank	7										7
Chandler State Bank	8										8
Country Clearing House	9										9
Post Office	10										10
TOTAL							Fines to be listed above				
Balance											
		Cr.	Dr.								

true, then he is a "creditor." The manager then takes the record of the debtor and creditor balances which, of course, must be equal, thus proving the correctness of the exchange. The clerks return to their respective banks with checks drawn only on their banks, whereas they came to the clearing house with checks drawn only on other banks.

SETTLEMENT OF BALANCES.—The exchanges having been made, the banks now prepare to settle the balances. There are various ways of doing this, depending upon the size of the city and the number of banks in the clearing house. In the smaller towns the manager of the clearing house may draw drafts upon the debtor banks, which he gives to the creditor banks, who then present them and receive either the cash or its equivalent. Or the manager may deposit the drafts of the debtor banks with one of the members and draw his own checks against this deposit in favor of the creditor banks. A general method is to make payment by draft upon the Federal Reserve bank of the district, or some other depository. In the larger cities settlement was formerly made in cash or its equivalent, payment being made by the debtor banks to the clearing house, which acted as agent in paying over the money to the creditor banks. To avoid the handling of even this money, many clearing houses conduct a depository where deposits of gold and currency are received, and certificates in large denominations, $5,000 and $10,000, issued. Settlements made with these certificates are upon a cash basis, yet the danger of loss or error in

SUGGESTED FORM OF SETTLEMENT CHECK

.....CLEARING HOUSE ASSOCIATION NO.....

....
City Date

In the settlement of the balances arising from the exchanges made between the members of this Association this day there is due and payable on demand to

No..... the..... $.....

.....Thousand .....Hundred..... and $\frac{00}{100}$ Dollars.

This check is not transferable and is without recourse upon any other member of this Association after.....P. M. of this day.

Due from No.....

....
Manager.

DAILY REPORT OF BANK DEBITS

.....CLEARING HOUSE ASSOCIATION

.....Bank
Trust Co.

.....192...

	Cents	Omitted	
Debits to Checking Accts. (Individuals, Firms and Corporations).....			
Debits to Savings Accounts.....			
Debits to Trust Accounts.....			
Debits to U. S. Govt. Accts. (Including			
War Loan Deposit Accts.).....			
Certificates of Deposit Paid.....			
TOTAL BANK DEBITS			
Debits on Country Banks and Bankers..			
TOTAL BANK TRANSACTIONS			

Debits in settlement of Clearing House Balances, Cashiers Checks, Corrections and similar charges, must not be included in these figures.

"Each member (and non-member) bank shall deliver each business day, before 11 o'clock A. M. to the Manager of the Clearing House, through the exchanges or by messenger, on forms provided by the Clearing House, a statement of the total amount of charges against deposit accounts, whether commercial, savings, or trust on the previous business day.
"A fine of one dollar shall be imposed on member banks for each failure to furnish the figures by the hour mentioned."

The above statement is correct

.....Treasurer
Cashier

handling the actual money is avoided. A general method in use in many large cities is to adjust the net balances by book entries on the books of the district Federal Reserve bank, those members of the clearing house which are not members of the Federal Reserve System maintaining balances there for just this purpose.

CLEARING COUNTRY CHECKS.—The clearing principle as applied to check collection is not limited to the items payable in one city. Many clearing houses formerly had also a department for the clearing of country checks. Such country clearing departments handled out-of-town checks, payable within nearby States, solely for their own members and thereby saved much unnecessary labor by consolidating the items from all the banks into one letter. Thus, instead of receiving a daily letter from each bank in the city, the country bank obtained all its checks from that city in one letter from the clearing house, to which it then remitted with a single draft. The Federal Reserve Act carried this process one step further by requiring the Federal Reserve banks to act as clearing houses for their member banks. Checks which each member bank sends to the Federal Reserve bank serve, generally speaking, as credit offsets to the checks which the Federal Reserve bank receives on that member. The great bulk of out-of-town (transit) items are now handled entirely through the Federal Reserve banks.

COUNTY CLEARING HOUSE ASSOCIATIONS.—In addition to having clearing houses in

our larger cities and towns, a number of very successful county associations have been organized. A county association takes in every bank in a certain county and the principle underlying such an organization is the same that applies to a clearing house in a city. The county clearing house association of Lancaster, Pennsylvania, provides an illustration of this sort of organization. This county organization, like all other clearing houses, was born of necessity. Lancaster, with ten banks and trust companies, and Lancaster County, with forty banks outside the city, had outgrown its customs and felt the necessity for something better. It was apparent that with each of the ten banks in the city keeping up daily correspondence with practically every bank in the county, and with each rural bank corresponding with nearly, if not all of the city banks and many throughout the county, there must be some better method than that of the Lancaster Clearing House Association, whereby labor, postage and annoyance could be reduced. About 1906, the representative of the Lancaster Clear-the House Association called a meeting of representatives from each bank in the county and presented the matter for consideration. They presented it in a spirit of fairness and to show good faith, proposed a committee of eight, three from the city and five from the county who should prepare a plan of operation, and agreed to abide by their action, at least until the plan had demonstrated itself a success or a failure. The committee met and in two hours' time had prepared a plan of operation that was not only workable but so highly

satisfactory that it has not been revised, added to, or taken from to this day. The ten city banks were arranged in the order of their resources, and each was required to take over the clearing for a certain number of country banks located in the county. The average number would have been four, but the arrangement assigned five or six to the larger banks and two or three to some of the smaller ones. Then the country banks were asked to present first, second and third choice for the bank that should represent them, but in case this feature should fail, the Lancaster Clearing House Association had power to assign. With these arrangements completed, the workings are such that while a bank which formerly had ten correspondents in Lancaster City and several more in the county, now has one correspondent which receives all checks coming to the bank in course of business and drawn on any one of the fifty banks of Lancaster County. This means that with but one letter to its correspondent in Lancaster, the bank is able to send through the clearing house on the following day, all checks it may receive on any or all of the fifty banks constituting the association and have them at their destinations on the second day. This obviates the necessity of starting checks on an uncharted sea without the possibility of knowing their whereabouts or when they will reach their destinations. At the same time, the bank's representative in Lancaster honors and forwards to it all the checks drawn on it that may be presented at the clearing house by the other nine members, including all checks

received from their correspondents in Lancaster County. At the end of the day, any amount in excess of $1,000 owing to the bank's correspondent or to the bank itself is paid by draft. That is, should the books show that it owes $2,600, it encloses with its remittance a draft for $2,000. Should the correspondent's books show them in the bank's debt, the plan is the same. They send their check for $2,000 with their remittance letter. Settlements are made in full once a week to verify the accounts. Aside from the advantages that come through the clearing of checks, these county associations have been of the greatest advantage in getting the banks together for consultation and the further development of their community and county interests.

CLEARING HOUSE FUNCTIONS AND ADVANTAGES.—In addition to the clearing of city and country checks, principally the former, and the settlement of balances, which may be called the primary clearing house functions, there are others not quite so much in general use but which nevertheless are of great importance. Many clearing house associations exercise a close supervision over their members, through the medium of the clearing house system of examination under the direct supervision of a clearing house examiner. The clearing house examiner supplements the work of Federal and State examiners. The National and State officers are limited in their powers of criticism to actual infringements on the law, and before they can take steps to correct such infringements capital has often become impaired

and failure is threatened. Most bank failures are due to the gradual acquirement of undesirable assets over a period of years, and if some authority exists with power to make recommendations of a remedial character, with the further power to enforce such recommendations, if necessary, there is little doubt that many bank failures would be averted. The examinations include, besides a verification of the assets and liability of each bank, so far as is possible, an investigation into the workings of every department and are made as thorough as is practicable. After each examination the examiner prepares a detailed report in duplicate, describing the bank's loans, bonds, investments, and other assets, mentioning specially all loans, either direct or indirect, to officers, directors, or employees, or to corporations in which they may be interested. The report also contains a description of conditions found in every department. One of these reports is filed in the vaults of the Clearing House, in the custody of the examiner, and the other is handed to the examined bank's president for the use of its directors. The individual directors are then notified that the examination has been made and that a copy of the examiner's report has been handed to the president for their use. In this way every director is given an opportunity to see the report, and the examiner, in every instance, insists upon receiving acknowledgment of the receipt of these notices.

The detailed report retained by the examiner is not submitted to the Clearing House committee, under whose direct supervision he operates, unless the dis-

covery of unusual conditions makes it necessary. A special report in brief form is prepared in every case and read to the Clearing House committee at meetings called for that purpose. The report is made in letter form, and describes in general terms the character of the examined bank's assets, points out all loans, direct or indirect, to officers, directors, or employees, or to corporations in which they may have an interest. It further describes all excessive and important loans, calls attention to any unwarranted conditions, gross irregularities, or dangerous tendencies, should any such exist, and expresses, in a general way, the examiner's opinion of each bank as he finds it. The examiners enter into an agreement not to enter the employ of any member or non-member of the association, or any other bank, banking institution, firm, or individual engaged in the business of banking, within a radius of miles, for a period of years after the expiration of services with the association. The Clearing House examiner is a very valuable man to the small bank or new institution. The officers of these banks very often do not have the facilities or experience necessary to pass upon paper which is submitted to them for sale or discount. They are apt to become loaded up with credits which have been rejected by their larger or better informed neighbors and must pay dearly for their lack of knowledge. The bank examiner is in a position to make valuable suggestions which often save failures and liquidations. Towns which are too small to be able to afford the services of a skilled examiner can combine with two

or more other cities and thus secure a proper official. A great many associations have rules for the conduct of their members. These rules provide for uniform exchange charges on out-of-town checks, uniform maximum interest rates on balances, regulations regarding hours for business, advertising, etc. Most associations publish a weekly statement of condition of the members, and cooperate in every possible way for the general good of the members of the association and the community in which it is located. There are not enough clearing house associations in America today. Nearly every town and city having three or more banks could probably form one to advantage and the Clearing House Section of the American Bankers Association will be glad to furnish all information desired.

SPECIAL CLEARING HOUSE FEATURES.—Clearing Houses we have said may be divided into two classes as to functions exercised, or to be more exact, they are divided as to the number of functions. All Clearing Houses make use of the clearing facility and most of them, whether by rule or custom, make some provision for their mutual protection. For example: during the panic of 1907 many Clearing Houses which had no set rule looking to the relief of members, appointed a committee who met daily to discuss ways and means. In addition to this class of Clearing House there is another distinction consisting of those associations which go further, and not only organize for economy and strength, but also for profit and progress. Some of the most common practices of this latter

INDORSEMENT STAMPS SUCH AS ARE USED BY BANKS AND BY MOST LARGE BUSINESS HOUSES. OBSERVE THE USE OF THE UNIVERSAL NUMERICAL SYSTEM

PAY TO THE ORDER OF

ANY BANK, BANKER OR TRUST COMPANY.

All Prior Indorsements Guaranteed.

MAY 8, 1922.

FIRST NATIONAL BANK,

STATETOWN.

59-16 WARREN DAY, Cashier. 59-16

PAY TO THE ORDER OF

THE FIRST NATIONAL BANK

64 OF STATETOWN. 64

BROWN PRINTING CO.

PAY TO THE ORDER OF

1-5 AMERICAN BANKERS BANK. 1-5

JAN. 17, 1922.

FIRST NATIONAL BANK

STATETOWN.

59-16 59-16

WARREN DAY, Cashier

class are regulation of exchange charges, interest rates, advertising restrictions and many other matters which are more strictly local in importance. Bankers, as a rule, are very reluctant to submit to any restrictions which prevent independence of action and, therefore, this class of Clearing House is in the decided minority. This is unfortunate, for under wise administration more real progress and general good can be accomplished through concerted action, than by policies adopted individually for selfish ends. Competition is essential in most industries, but in banking this is true only to a limited extent. Banks deal in a commodity which is subject to hard and fast rules set forth in the National Bank Act and legislative statutes. In many matters no bank can be a law unto itself without being a menace to the entire community and in the end bringing destruction upon itself and serious loss upon its neighbors. This fact has been shown too often to admit of serious contention. Therefore many Clearing Houses have a regular exchange of credit information, rules governing advertising, regulations fixing scales of exchange rates and many other similar measures which promote a healthy condition of financial stability and work for the welfare of banker and merchant alike. Of course, there have been and are records of Clearing House combines which exceed the proper limits of coercion and have sought to profit at the expense of a neighboring city, or have made regulations which do not conform to a proper spirit of general welfare, but such instances are of rare occurrence. The framing of rules which are

binding upon banks who are members of Clearing Houses is not to be construed as being in restraint of trade, but rather as conforming to the axiom that what is best for the many is best for the few.

UNIVERSAL NUMERICAL SYSTEM.—Checks often pass through many banks before they come to the bank on which they are drawn, and each bank has placed its indorsement on such checks. In each case the name of every bank was registered either as payer or indorser. Perhaps but one in every two thousand of these records will need to be referred to in case of a lost item and about one in five hundred on account of dishonor. A lot of writing is thus necessary, but seldom used. To reduce this labor to a minimum the "Universal Numerical System" was adopted. A distinctive number has been given every bank in the United States under a definite, simple, well-ordered plan. This number, consisting of a prefix—designating city or State—and a second figure denoting the individual bank, is placed at the right of the title on the face of the check, and at the lower left-hand corner of drafts near the name of the paying bank. On indorsement stamps the number is placed on each side of the name of the bank. Designating places and banks by numbers instead of names is a time-saver and is being rapidly adopted by the banks. The saving in time can easily be seen when to indicate the "Continental and Commercial National Bank, Chicago, Illinois," only the numerals 2-3 are needed. The "2" means city No. 2 (Chicago) and the "3" shows that the Continental and Commercial is bank

No. 3 in the clearing house. Under this plan the clerks do not have to commit a long list of numbers to memory, for they are printed on the check. If an item is lost, and it is necessary to refer to the numerical record, the bank directory or "key to the system" will show what bank the numbers designate. Some banks also, for the same purpose, give individual numbers to those customers habitually depositing a large number of transit items. The extent to which the system may be used is left entirely to the individual bank. Some use it entirely, others only partially as suits their needs. But all banks should see that their checks, drafts and indorsement stamps show the number, so that any bank may use the system without having to supply missing numbers, just as a person puts the street number on his house for the convenience of his callers.

TRAVELERS' LETTERS OF CREDIT.—There are many ways in which the transfer of money funds may be effected between distant cities or between different persons. One of the more important methods used primarily by travelers are travelers' letters of credit. These are issued by banks. They are intended primarily for the convenience of travelers, particularly those in foreign countries. They are authorizations to the bank's correspondents to pay the bearer up to a certain named amount. Suppose A wishes to travel in Europe. He buys a letter of credit. He arrives at Paris and wishes some funds. The letter of credit gives the name of the bank's correspondent in Paris. A goes to that bank and makes out a

draft for the amount he needs. The signature on the draft is compared with the signature on the letter of credit and if they correspond the money will be paid. The paying official writes on the letter of credit the amount withdrawn, plus the commission. At any time, therefore, the letter will show how much of the credit remains unused. They are of much convenience to travelers, as advancements can be secured on them almost everywhere and no identification beyond the comparison of signatures is required. Any balance that may remain when the traveler returns will be redeemed by the bank or banker which issued the letter.

COMMERCIAL LETTER OF CREDIT.—The commercial letter of credit (as distinguished from the traveler's letter) is used to pay for merchandise purchased from exporters in foreign countries. It authorizes an exporter to draw against the correspondents of the issuing bank for the amount named in the letter on account of specific shipments. Or suppose A wishes to take a trip visiting several cities to make purchases or payments. He buys or arranges for a "commercial letter of credit," upon which he will be able to raise money for his purposes at convenient points. Let us consider the case of the importer and exporter. A, living in Chicago, purchases goods from B, a merchant in Hongkong. He goes to his Chicago bank and gets a commercial letter of credit stating the terms of his purchase. Such a letter might be addressed to some London bank, to the London branch of an American bank or to a New York bank or its

TRAVELERS' LETTER OF CREDIT

Minneapolis, Minn., June 30, 1922.

Messrs. Kane and Nickert,
Paris, France.

Gentlemen:

We take pleasure in introducing to you Mr. Clarence Thomson, who intends visiting France and Italy. He desires us to open a credit with you for him for twenty thousand francs. You will please honor his drafts to the above-named sum, and charge the same to us, with advice.

Mr.Thomson's signature accompanies this.

Very truly yours,
FEDERAL NATIONAL BANK.
J. CAMERON CHANEY,
Cashier.

(Signature of Clarence Thomson).

This letter would be given to Mr. Thomson. The Federal National Bank sends to Kane and Nickert (French bankers), a letter informing them of the transaction (probably enclosing duplicate of the letter given Mr. Thomson and giving a brief physical description of Mr. Thomson).

COMMERCIAL LETTER OF CREDIT—FRONT

INSTITUTE NATIONAL BANK OF CHICAGO

Foreign Department

Credit No. 462.
£2,000 Sterling.

Messrs. Stevens and Mullen,
Hongkong.

Chicago, June 14, 1922.

Gentlemen:

We hereby authorize you to draw on the Institute National Bank of Chicago, 182 Bowdoin Street, London, for account of Ralph Steiner, Chicago, Ill., up to an aggregate amount of Two Thousand Pounds Sterling available by your drafts at three (3) months' sight against shipment of silk from Hongkong to Chicago. Insurance effected in the United States.

Bills of Lading for such shipments must be made out to the order of the Institute National Bank of Chicago, unless otherwise specified in this credit.

CONSULAR INVOICE AND ONE BILL OF LADING MUST BE SENT BY THE BANK OR BANKER NEGOTIATING DRAFTS, DIRECT TO THE INSTI-

TUTE NATIONAL BANK OF CHICAGO, AT ITS CHICAGO OFFICE, WITH NOTICE TO THE INSTITUTE NATIONAL BANK OF CHICAGO'S LONDON OFFICE.

The remaining documents must accompany the drafts drawn on the Institute National Bank of Chicago, London.

The amount of each draft negotiated, together with date of such negotiation, must be indorsed on the back hereof.

We hereby agree with bona fide holders that all drafts drawn by virtue of this credit, and in accordance with the above stipulated terms, shall meet with due honor upon presentation at the office of the Institute National Bank of Chicago, London, if drawn and negotiated prior to September 13, 1922.

INSTITUTE NATIONAL BANK OF CHICAGO,
By MAX SPAULDING,
Cashier.

N. B.—Drafts drawn under this credit must state that they are "drawn under Letter of Credit No. 462, dated June 14, 1922."

The Indorsements Will Appear on the Back. All the Above Letter Except the Names of the Parties, Amounts, Dates and Terms of the Particular Transaction Involved Will Probably Be Printed. The Larger Banks Doing This Business Have Regular Forms. Steiner, the Importer, Will Send This to Stevens and Mullen, the Exporters in Hongkong.

Hongkong branch, requesting it to "accept" the drafts of the Hongkong merchant up to a certain amount, provided he complies with certain conditions named in the letter, concerning bills of lading, consular invoices, and insurance papers. The Chicago bank gives this letter to its customer, who, in turn, sends the letter to the Hongkong merchant. After complying with the terms of the sale, he draws a draft on the bank named, attaching the papers that may be named in the letter of credit as having to accompany the draft. He takes this draft to his local bank and sells it, the local bank, of course, deducting the exchange charges. The Hongkong merchant has thus received his payment for the goods, and in case everything has been done regularly and he has properly fulfilled his part of the contract, he is out of the transaction. If the banker through whom the credit was opened accepts the draft, he hands it back to the presenting agent or correspondent of the Hongkong bank, who sells it, as a rule, using the proceeds to reimburse the Hongkong bank for the funds paid out in that city. When the documents, obtained by the accepting bank, are sent by it to the Chicago bank, it is then customary for A, the Chicago merchant, to obtain the goods by signing a "trust receipt," stating he will sell the goods and use the proceeds to pay the draft. Both the importer and exporter are benefited by the transaction, the exporter getting his money when he ships the goods and the importer being able to sell the goods before he has to pay for them. If his credit had not been quite as good with his Chicago bank the latter

might have stored the goods and turned them over to him only when he showed he had sold them and needed them to make delivery and receive payment. In this case the bank might release the goods to him in small lots. The Chicago bank gets a commission from A, and the accepting bank receives a commission for accepting the draft.

TRAVELERS' CHECKS.—A modified form of the traveler's letter of credit is the traveler's check issued by the American Bankers Association and others. The "A. B. A." checks are of convenient size and are fastened in a handy leather wallet or pocket-book, from which they may be torn as needed. They are issued in four denominations and a traveler can have a book of checks made up in any amount to suit his requirements. At the time the checks are bought, the purchaser writes his name on the face of each one (top line on the left) and he is instructed not to countersign them (bottom line on the left) until presenting them for payment. Hotels, banks, transportation companies and all others called upon to accept the checks should require the holder to countersign in the presence of the person accepting them, when the signature and counter-signature should be compared. These checks are accepted throughout America and Europe by hotels, railroad companies, steamship lines, sleeping car companies, and the principal stores and shops. They may be cashed at practically all banks, including the strongest banking institutions in all the larger cities and towns.

OTHER FORMS OF CREDIT FOR TRAV-

TRAVELERS' CHECK ISSUED BY AMERICAN BANKERS ASSOCIATION (A.B.A.)

American Bankers Association

TRAVELERS' CHECK

BANKERS TRUST COMPANY
NEW YORK CITY

WHEN COUNTERSIGNED BELOW WITH THIS SIGNATURE, AT ANY TIME WITHIN TWO YEARS FROM DATE, TO WIT: No.

_____ _____ 192____

PAY TO THE ORDER OF _____ $_____
OR ITS EQUIVALENT AS BELOW

COUNTERSIGNATURE

_____
NAME OF ISSUING BANK WILL BE PRINTED IN THIS SPACE

WE HEREBY ACCEPT THE FOREGOING ORDER AND WILL PAY THE SAME, WHEN PROPERLY NEGOTIATED THROUGH ANY OF OUR CORRESPONDENTS NAMED ON THE BACK HEREOF.

BANKERS TRUST COMPANY.

BY_____ TREASURER BY_____ CASHIER

CHECKS CASHED IN EUROPE WILL BE REDEEMED ONLY AT THE COMPANY'S BANKERS IN EUROPE.

Equivalents in the Money of Various Foreign Countries Are Printed on the Bottom of Such Checks.

ELERS.—Some people prefer to take bills of exchange with them when traveling in foreign countries. Or they may take ordinary drafts on some New York bank. They can get these cashed at any European bank by paying a small amount for exchange and by being properly identified. Travelers' checks are now very largely displacing letters of credit, bills of exchange and bank drafts as credit instruments used by travelers. Bills of exchange on banks in this country and drafts upon individuals in this country are discussed in another chapter. Bills of exchange drawn upon banks in another country or on private individuals or business firms in some other country are known as "foreign bills of exchange." Also all bills of exchange that are payable in another State within the United States are called "foreign bills of exchange." Letters of credit and travelers' checks are forms of bills of exchange, provision having been made previously for their acceptance.

UNITED STATES POSTAL SERVICE.—A much larger volume of money transfers takes place within the United States than for travelers abroad and importers and exporters. In these domestic remittances the postal service of the United States is of vital importance to banks and their customers. It is conducted not as a money making institution but to provide a safe, swift and convenient way for sending letters, packages and printed matter of different kinds at small expense. Indeed, it has been shown at times that on some classes of mail the Government actually loses money.

REGISTERED MAIL.—All domestic mail matter except fourth-class matter (domestic parcel post mail) can be registered at the low rate of ten cents for each package (in addition to the regular postage). Fourth-class matter may be insured. Each package registered must bear the name and address of the sender. Indeed, it is advisable that all letters sent through the mails should bear the sender's name and address, so that if necessary they may be returned to him. A receipt for registered packages will be returned from the persons to whom they are sent if they are indorsed "receipt desired," or words meaning the same thing. Mail matter can be registered at all postoffices in the United States. An indemnity—not to exceed $50 for any one registered piece, but equal to the actual value of the piece if it is less than $50—will be paid for the loss of first-class registered matter mailed at and addressed to a United States postoffice. Likewise an indemnity of not to exceed $25 will be paid for domestic third-class matter. Money is sometimes sent by this method, but as not over $50 will be paid for its loss it is not often done. However, much currency and some valuable commercial paper is sent through the registered mail, the package first being insured by an insurance company. The rates are very low, being but a few cents a day for each thousand dollars insured, the rate of course depending upon the distance and consequent time in transit. Money is usually sent by registered mail from such postoffices as are not allowed to issue money orders; or such towns as do not contain express

offices. No indemnity will be paid if the loser has been reimbursed in some other manner. Claims for indemnity must be made within one year from date of loss of domestic mail and within one year from the date of mailing of foreign mail. The limit of indemnity paid for registered articles lost in mail sent to foreign countries is $10.

POSTOFFICE MONEY ORDERS.—The method usually used by business men in paying accounts or debts in some other city is to send their creditor a bank draft. Or they might send a check or a promissory note. Other methods are, however, just as safe and almost as convenient. One of these is the use of postoffice money orders, which are of two kinds, domestic and international. Generally speaking, domestic money orders are payable at home, while international money orders are payable abroad. To secure a money order it is necessary to fill out an application blank, which is furnished by the postoffice authorities, stating the name and address of the payee and the remitter, together with the amount of money it is desired to send. On receipt of the application and the money (plus a small fee), the postmaster issues the money order, which is addressed to the postmaster at the place where the order is being sent, who is directed to pay to the payee named in the money order the sum of money stated therein. The remitter sends the money order to the payee, who, on presenting it at the postoffice where he lives, can secure the money on proper identification. All postoffices except a few in the smallest towns are author-

ized by the Government to issue money orders. Money orders can be used to send money only to such offices as are authorized to issue them. The maximum amount for which a single money order may be drawn is $100. The applications for money orders are kept three years by the issuing office. As previously stated all domestic money orders must be made payable at a designated money order office; but it is very important to notice that those issued at any money order office in the continental United States, excepting Alaska, may be paid at any money order office in the continental United States, excepting Alaska, if they are presented for payment on or before the expiration of the thirtieth day following the date of issue. If they are presented after that date and within one year from the last day of the month in which they are issued, they shall be paid only at the office designated in the money order as the paying office, or repaid at the office of issue. The postmaster will not pay the order until he is satisfied that the person presenting it is the person named in the order. Before it is paid the holder will be required to receipt it. Postoffice money orders may be transferred by indorsement, but only one indorsement is permitted. Many banks will accept money orders on deposit. Stamps of banks which have handled the order are not regarded as indorsements.

EXPRESS MONEY ORDERS.—Express companies also issue money orders, which are payable at any of their offices. The leading companies have offices or agencies in every part of the United States.

Small fees are charged. These orders, unlike the postoffice money orders, can be negotiated any number of times. Banks will receive them on deposit as readily as they will take checks or drafts.

MONEY SENT BY TELEGRAPH.—Money funds may be transferred from one place to another by telegraph. Only the larger offices of the telegraph companies are permitted to send such orders and they can be sent only to certain offices. The paying office requires the person presenting the telegram to prove that he is the person named in it. This method of sending money is much more expensive than the other methods, and is used only under conditions requiring prompt dispatch.

EXPRESSING COIN OR BULLION.—In spite of the many ways in which funds may be safely and securely transmitted from place to place by bankers or others, it is occasionally necessary to ship actual money and no substitutes will suffice. The safest way in which to send coin, currency or bullion from one place to another is by express. The shipper places the money in an envelope and it is not counted by the express company, which simply guarantees the safe delivery of the package. The cost of shipping money by express varies with the amount and distance. The express companies have one rate applicable to property valued at not over $50 and another for property valued at $50 or over. These rates are regulated by the Interstate Commerce Commission. Large shippers of money are permitted to secure a special rate from the company and the Government is given very

low rates. Uniform express receipts are used by all express companies. Funds may also be transferred by banks by wiring to their correspondents in other cities and by wire transfers through the Federal Reserve banks.

CHAPTER VII

Bills of Lading and Other Documents

BILLS OF LADING.—A bill of lading is an itemized statement of goods shipped, and a contract to transport them safely and make proper delivery at some stated place. The possession of it gives the purchaser, or the person to whom the goods are shipped, a right to receive them. The person shipping the goods is called the "consignor;" the person receiving the goods is known as the "consignee." The bill of lading is given by the carrier (steamboat company, railroad, etc.) to the person shipping the goods. It is a receipt by the carrier acknowledging the acceptance of goods. It is also a contract between the carrier and shipper stipulating the terms and manner of shipment, and the carrier's responsibility. Thus, we can say that the bill of lading is both a receipt and a contract. There are two kinds of bills of lading: (1) the "straight" bill, where the goods are consigned or sent to a specified person, which is non-negotiable; and (2) the "order" bill, which is negotiable. The latter states that the goods are sent to the order of any person named in the bill as consignee. In the "order" bill indorsement and delivery of the bill are necessary to secure the goods. Such order bills are salable credit instruments and may be transferred. It is a favorite form of collateral for loans from banks. Two copies of the bill of lading (B/L) are usually made. One of these is signed by

"STRAIGHT" BILL OF LADING—NON-NEGOTIABLE

EAST AND WEST RAILROAD COMPANY

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE

Shipper's No.....

Agent's No.....

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at 192

from.....the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The Rate of Freight from.....

to .....is in Cents per 100 Lbs.

IF—Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per	IF Special Per

(Mail Address—Not for Purposes of Delivery)

Consigned to.....

Destination .....State of.....County of.....

Route .....Car Initial.....Car No.....

No PACKAGE S	Description of Articles and Special Marks	WEIGHT Subject to Correction	CLASS OR RATE	CHECK COLUMN	
	(THIS BILL OF LADING IS WHITE IN COLOR)				If charges are to be prepaid, write or stamp here, "To be Prepaid." ..... Received $..... to apply in prepayment of the charges on the property described hereon. ..... Agent or Cashier Per..... (The signature here acknowledges only the amount prepaid.) Charges Advanced: $.....

..... Shipper .....Agent

Per..... Per.....

(This Bill of Lading is to be signed by the Shipper and Agent of the carrier issuing same.)

NEGOTIABLE BILL OF LADING

EAST AND WEST RAILROAD COMPANY.

ORDER BILL OF LADING—ORIGINAL

Shipper's No. _____
Agent's No. _____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at 192

from ..... the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property, over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof), and which are agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER bill of Lading properly indorsed shall be required before the delivery of the property. Inspection of property covered by this Bill of Lading will not be permitted unless provided by law or unless permission is indorsed in this original bill of lading or given in writing by the shipper.

The Rate of Freight from.....

to .....is in Cents per 100 Lbs.

IF.....Times 1st	IF 1st Class	IF 2nd Class	IF Rule 25	IF 3rd Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per _____	IF Special Per _____

(Mail Address—Not for Purposes of Delivery)

Consigned to ORDER OF.....
Destination .....State of.....County of.....
Notify .....
At .....State of.....County of.....
Route .....Car Initial.....Car No.....

No. PACKAGES	Description of Articles and Special Marks	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN	
					If charges are to be prepaid, write or stamp here, "To be Prepaid." .....
	(THIS BILL OF LADING IS YELLOW IN COLOR)				Received $..... to apply in prepayment of the charges on the property described hereon. ..... Agent or Cashier Per..... (The signature here acknowledges only the amount prepaid.)
					Charges Advanced: $.....

..... Shipper ..... Agent

Per..... Per.....

(This Bill of Lading is to be signed by the Shipper and Agent of the carrier issuing same.)

AGENTS MUST DETACH THIS SLIP BEFORE DELIVERY OF BILL OF LADING TO SHIPPER.

This color and form of Bill of Lading must be used only for shipments consigned to "Order." In way-billing shipments consigned to "Order" a conspicuous notation must appear upon the way-bill reading: "The surrender of the Original Order Bill of Lading, properly indorsed, must be required before the delivery of the property."

the shipper and delivered to the carrier and the other is signed by the carrier's agent and delivered to the shipper. Usually the consignor sends his copy of a straight bill of lading to the consignee. When the latter receives it he has something to prove that the goods should be delivered to him.

WHAT A BILL OF LADING MUST CONTAIN.—Since order bills of lading are much used for collateral, banks should know when they are good. Every bill must contain the following essentials: (1) the date of its issue; (2) the name of the person from whom the goods have been received; (3) the place where the goods have been received; (4) the place to which the goods are to be transported; (5) a statement whether the goods received will be delivered to a specified person, or to the order of a specified person; (6) a description of the goods or of the packages containing them (this description may be in general terms); and (7) the signature of the carrier. A carrier may insert in a bill, issued by him, any other terms and conditions, provided that such terms and conditions shall not: (a) Be contrary to law or public policy, or (b) in any wise impair his obligation to exercise at least that degree of care in the transportation and safe-keeping of the goods entrusted to him which a reasonably careful man would exercise in regard to similar goods of his own. The indorsed order bill of lading makes excellent collateral provided the merchandise covered by it is of a suitable character. The straight bill is of value merely to give evidence that certain goods were shipped.

ACCEPTANCE AND CARRIER'S LIEN.—If the shipper receives the bill and makes no objection at the time to its terms, then neither he nor any other person can afterwards deny that he is bound by the lawful terms of the bill. The carrier has a lien upon the goods for the payment of freight, storage and other charges. In other words until all charges are paid he does not have to deliver the goods.

BILLS OF LADING AS COLLATERAL FOR LOANS.—Suppose A wishes to borrow $1,000 from some bank. He gives the bank his promissory note and also an indorsed order bill of lading for certain goods. If A is unable to pay the note when it is due the bank can demand the goods for which the bill of lading was issued and sell them. Banks in receiving such bills should remember: (1) the bill of lading does not guarantee the quality or quantity of the goods, since the description is furnished by the shipper, and if the latter has deliberately or unintentionally deceived the carrier the latter will not be held liable to deliver the goods described in the bill of lading, but only the goods actually received; (2) part of the goods may have been delivered and their delivery not stated in the bill; (3) the goods may have deteriorated. Bills that are old (known as "stale" bills) should be very carefully investigated, for the goods may have been lost or destroyed or injured in some way, so that the bill would be of no use to the bank if it had to proceed on it.

BILLS OF LADING WITH DRAFT ATTACHED.—Suppose A, of Chicago, receives an order

NOTICE BY BANK TO CONSIGNOR THAT DRAFT WITH BILL OF LADING ATTACHED HAS NOT BEEN PAID

The Institute National Bank

....., 192....

.....

.....

Dear Sir:

We have received your favor of..... enclosing Draft.....with Bill of Lading attached on

.....

.....

.....

We have made presentation to consignee.....and answer is made that the goods are not yet here, and that the Draft.....will receive attention as soon as the goods arrive.

We have no way of ascertaining the arrival of goods except by notice from the consignee....., and unless we receive instructions from you to the contrary we will hold the Draft..... here until the consignee..... inform us that the goods are in.

We shall be pleased to comply with any special instructions that you may wish to give us.

Yours very truly,

Cashier.

for a bill of goods amounting to $1,000 from B, of Minneapolis. A does not wish to ship the goods without being assured that payment will be promptly made (perhaps he does not know B, or B's credit is not very good). The best way to be sure of this is to ship the goods "C. O. D." (Collect on Delivery—to be paid for when delivered) by freight. This is usually done by means of an "order" form of bill of lading with draft attached. A would send the goods to the order of himself at Minneapolis, being both consignor and consignee. He would also indorse the bill of lading and attach it to a draft drawn on B. The draft would be put in his own local bank which would send it to its Minneapolis correspondent for collection from B. When B pays the draft the bank will turn over to him the bill of lading, and he can then get the goods, since the bill has already been indorsed to him. B would be informed of the start of the shipment, and also advised how the goods were shipped.

DUPLICATE NEGOTIABLE BILLS.—When more than one negotiable bill is issued for the same goods to be transported to any place in the United States on the continent of North America, except Alaska, the word "duplicate" or some other word or words indicating that the document is not an original bill shall be placed plainly upon the face of every such bill, except the one first issued. A carrier shall be liable for the damage caused by his failure so to do to any one who has purchased the bill for value in good faith as an original, even though the purchase

be after the delivery of the goods by the carrier to the holder of the original bill. A bill upon the face of which the word "duplicate" or some other word or words indicating that the document is not an original bill is placed plainly, shall impose upon the carrier issuing the same the liability of one who represents and warrants that such bill is an accurate copy of an original bill properly issued, but he incurs no other liability.

ALTERED BILLS.—Any alteration, addition or erasure in a bill after its issue without authority from the carrier issuing the same either in writing or noted on the bill shall be void, whatever be the nature and purpose of the change, and the bill shall be enforceable according to its original tenor.

LOST OR DESTROYED BILLS.—Where a negotiable bill has been lost or destroyed, a court of competent jurisdiction may order the delivery of the goods upon satisfactory proof of such loss or destruction and upon the giving of a bond with sufficient surety to be approved by the court to protect the carrier or any person injured by such delivery from any liability or loss, incurred by reason of the original bill remaining outstanding. The court may also in its discretion order the payment of the carrier's reasonable costs and counsel fees. The delivery of the goods under an order of the court shall not relieve the carrier from liability to a person to whom the negotiable bill has been or shall be negotiated for value without notice of the proceedings or of the delivery of the goods.

SENDING GOODS BY EXPRESS.—In another chapter we learn how coin and bullion are often sent by express. The same rules apply to shipments of other articles by express. Shippers should always address packages clearly and also put their own names on them. They should always get a receipt from the express company. Express companies are responsible for losses caused by the negligence of their agents. The recipient of an express package must sign a receipt on getting it from the express company's agent. The charges may be prepaid or not, as the sender prefers. If the goods are sent C. O. D. the sender makes out a bill of the goods (giving names of buyer and seller, date and place of sale, kind, quantity and price of the goods, and the terms of the sale). This bill is placed in an envelope called a C. O. D. envelope, which is sent with the goods. Before the goods are surrendered by the express company to the consignee, the express charges for carrying and delivering the goods and the amount of the bill are collected. Sometimes the express company collects charges for the return to the shipper of the money collected. If the company delivers goods, sent C. O. D., without collecting the money it will be liable for any injury suffered by the shipper.

INVOICES.—When goods are sent C. O. D. by express the sender makes out a bill containing a description of the goods. Such an itemized statement is also made out whenever goods are sold, and a copy is given to the buyer by the seller. This statement is known as an invoice. There are columns in

which to place any discount that may be allowed. When such bills or invoices are receipted, showing that they have been paid, the receipt should always appear on the face. Invoices sometimes are assigned to banks and are known as "accounts receivable," the sender possessing a lien upon the accounts. This is not, from the banker's viewpoint, considered a desirway of borrowing and is resorted to only in extreme cases.

STATEMENTS OF ACCOUNT.—Banks periodically render statements of account to their depositors. Business men and firms also make out statements of account, which are sent to their debtors. They show all the debits and credits of an account as they appear on the seller's books. It is not necessary to make out an itemized statement if an invoice was

INVOICE WITH TERMS OF DISCOUNT NOTED

St. Paul, Minn., April 1, 1922.

Mr. Carter Perry, Dr.

Bought of

Kinsey and Hanson, Wholesale Druggists

Terms: Net 60 days (or it might read 3/10/60).
Less 3% if paid within 10 days.

(Here follows description of goods bought with price)

made out and delivered to the purchaser when each purchase was made. If this has been the case it will

be sufficient simply to give the date and amount of each purchase in the statement, with the words: "As per bill rendered." Retail businesses usually send out these statements at the end of each month. Wholesale dealers usually make them out when the term of credit has expired. For instance, if goods have been sold on sixty days' credit, the statement will not be sent out until this period has expired.

CASH DISCOUNT.—Goods are generally sold on credit. The sellers usually allow the deduction of a certain percentage of the total if the bills are paid before they are due. Thus, if the whole amount is due in sixty days, the wholesaler may allow a certain percentage off from the total if it is paid within ten days. Suppose the percentage that would be allowed off is three. Then the terms of discount might appear on the bill as 3/10—net 60, meaning that a discount of 3% will be allowed if the bill is paid in ten days.

TRADE DISCOUNT. — Manufacturers and dealers often allow to their best customers, and those buying in large quantities, what is known as trade discount. This means that a discount is allowed from the amount of the bill. Suppose A buys from B $200 worth of goods. He is allowed a discount of 10% from the list price. Then he would have to pay only $180 to B. Suppose the terms had stipulated that he be allowed a discount of 10% and 5% off from the list price. This would not give him a deduction of 15% from the $200, but it would give him a further discount of 5% of the $180, or $9, making only $171

A would have to pay. He might in addition be allowed a cash discount, which would be figured on the $171.

CREDIT MEMORANDUMS.—Sometimes rebates or deductions are allowed to purchasers. This may be done because the goods are not satisfactory and are returned, or the price is higher than the purchaser had expected, or for some other reason. The seller will make out and send to the purchaser a memorandum of credit, which shows how much credit or reduction he will be allowed. It differs from the invoice in that it shows a credit instead of a debit. Credit memorandums are usually printed in red.

ORDERS FOR GOODS.—These are very similar to drafts. They are orders by one party to another party to give the party holding the order the goods mentioned. Thus, A orders B to give C goods from B's store to the value of $10. This order might be made out in the accompanying form:

Minneapolis, Minn., July 10, 1922.

Mr. Bert Strickland:

Please deliver to Earl Chaney, goods from your store to Ten dollars. Charge to my account.

NORMAN BURCHETT.

Such orders are not negotiable. This does not mean that they cannot be given to some one else. But they can only be "assigned." What is the differ-

ence between "assignment" and "negotiation?" Suppose B steals a draft from A. He can get nothing on it himself, but if the draft is in the right form he can sell it to an innocent purchaser who can enforce it fully—it has been negotiated. The foregoing order for goods could only be assigned. This means that if Burchett turned it over to Humes, that Humes could get only Burchett's rights, while in the case of negotiation, an innocent purchaser may get more rights than were possessed by the party from whom he purchased such an instrument.

RECEIPTS.—When one person receives money from another it is customary to give a receipt or voucher, showing the amount, the purpose for which the money was paid, the date, the name of the person paying the money, and the signature of the person

RECEIPT FOR PAYMENT ON ACCOUNT FOR ANOTHER

Belvidere, Ill., Oct. 10, 1922.

$22.00

Received of Edward J. Graham, Twenty-two dollars, to apply on the account of Murray McQuade.

JOHN A. WATERS.

paid. Blanks for receipts can be obtained at any stationery store. Care should be taken to preserve all receipts of whatever kind, for they are often very important as evidence if there is an attempt made to collect payment a second time. The use of checks as

receipts is growing steadily, and the indorsement of the payee is usually considered an adequate receipt, particularly if a voucher check has been used.

ELEVATOR RECEIPTS.—All receipts are not made for money received. They may be for goods received. Thus, elevator receipts show that grain is held in storage at an elevator. They are similar to warehouse receipts, which are described in the following paragraph.

WAREHOUSE RECEIPTS.—A warehouse receipt is for goods classified and placed in a warehouse,

RECEIPT FOR PART PAYMENT ON NOTE

(The Amount Paid Should Also Be Indorsed on the Back of the Note.)

Winona, Minn., May 15, 1922.

$60.00

Received of Rudolf Thomson, Sixty dollars, to apply on his note of One hundred and fifty dollars in my favor, dated January 11, 1919.

J. CAMERON HECHT

and it is both a receipt for goods received and a contract for their safe care and redelivery. It is given by the warehouseman to the depositor. There are two forms: (1) "non-negotiable," which states that the goods will be delivered to the depositor or to some other specified person; (2) "negotiable," which states that the goods received will be delivered to bearer or to the order of some person named in the

receipt. A provision inserted in a negotiable receipt stating that it is non-negotiable is without effect. Warehouse receipts may be issued only by licensed warehousemen, and must embody the following essentials: (1) the location of the warehouse where the goods are stored; (2) the date of the issue of the

RECEIPT TO APPLY ON ACCOUNT

(If the Account Had Been Paid in Full the Words "In Full of Account to Date" Might Have Been Added After the Word "Dollars.")

New Orleans, La., February 14, 1922.

$50.00

Received of Gardner B. Beckley, Fifty dollars, to apply on his account.

STEWART D. PERRY

RECEIPT FOR MERCHANDISE ON ACCOUNT

Newton, Iowa, November 3, 1921.

$80.00

Received of Carter E. Locke, 80 bushels of wheat at one dollar per bushel, to apply on account.

ROBERT B. TALMAN

receipt; (3) the consecutive number of the receipt; (4) a statement whether the goods received will be delivered to the bearer, to a specified person, or to a specified person or his order; (5) the rate of storage

charges; (6) a description of the goods or of the packages containing them; (7) the signature of the warehouseman, which may be made by his authorized agent; (8) if the receipt is issued for goods of which the warehouseman is owner, either solely or jointly or in common with others, the fact of such ownership; (9) a statement of the amount of advances made and of liabilities incurred for which the warehouseman claims a lien. If the precise amount of such advances made or such liabilities incurred is, at the time of the issue of the receipt, unknown to the warehouseman or to his agent who issues it, a statement of the fact that advances have been made or liabilities incurred and the purpose thereof is sufficient. If any of the essential terms are omitted the warehouseman is liable for any injury caused thereby. He may put

RECEIPT BY PERSON UNABLE TO WRITE

(All Documents Signed by Such Persons Should Also Be Signed by Witnesses.)

Columbia, Mo., September 25, 1921.

$20.

Received of Frank Moser, Twenty dollars, in full of all demands to date.

Witness:
BYRON W. HALL
142 Main St., Columbia
FRANK C. SCHACHT
67 Spring St., Columbia

His
CHARLES A. x BALL
Mark
428 Harrison St.

ELEVATOR RECEIPT

No. 7000

EAST AND WEST RAILROAD COMPANY

GRAIN ELEVATORS

Kind of Grain....
Bushels....
Grade....

Weehawken, N. J....., 192..

Received in Store from.....

..... Bushels

of ..... subject

only to the order hereon of.....

and the surrender of this receipt, and payment of charges.

THIS GRAIN IS STORED SUBJECT TO ALL OF THE CONDITIONS PRESCRIBED IN OUR TARIFFS FILED WITH THE INTERSTATE COMMERCE COMMISSION.

..... Manager

.....

in the receipt any terms not contrary to law or not relieving him of reasonable care of the goods stored. As in the case of bills of lading, these provisions are not uniform in all States.

USE OF WAREHOUSE RECEIPTS.—Suppose A, a farmer, deposits certain grain in a warehouse (usually, however, the man who purchases the grain from the farmer will be the one to do this). He secures a receipt and is entitled to the possession of the grain on payment of the charges. He then wishes to sell the grain to B. He indorses the receipt to B and is paid for it (only in the case of a negotiable receipt, and most receipts are made negotiable). It may also be used as collateral for the advancement of funds. Of course, when a receipt is negotiable, it may be passed any number of times. Again, terminal elevator companies often buy a great deal of grain and to do so must borrow heavily at the banks. To get the loans they deposit as collateral, elevator receipts, which are regarded as good security. When the grain is sold the loans are paid and the receipts surrendered.

OBLIGATIONS AND RIGHTS OF WAREHOUSEMEN.—A holder in good faith of a warehouse receipt is entitled to rely on the statements it contains. So warehousemen should be careful not to issue receipts except for goods actually delivered to them, nor should they deliver goods to any one except upon surrender of the receipt. Otherwise, they might have to deliver a second time and have to buy the goods themselves with which to do so. Of course,

NON-NEGOTIABLE WAREHOUSE RECEIPT

EAST AND WEST WAREHOUSE COMPANY

100 MAIN STREET

No...... *New York,*.....*192*.....

Received ON STORAGE IN WAREHOUSE, 100 MAIN ST., NEW YORK CITY FROM..... THE FOLLOWING PACKAGES (CONTENTS AND CONDITION OF CONTENTS UNKNOWN) EX..... SAID TO CONTAIN THE GOODS DESCRIBED BELOW.

MARKS	NUMBER	PACKAGES	KIND	DESCRIPTION

WHICH WILL BE DELIVERED TO THE DEPOSITOR ON PAYMENT OF THE CHARGES SPECIFIED HEREON.

ADVANCES MADE
LABOR IN AND OUT PER
STORAGE PER MONTH PER

EAST AND WEST WAREHOUSE COMPANY,

.....
President

The Words "Not Negotiable" Are Required to Be Printed Across the Face of the Non-Negotiable Warehouse Receipt.

if 1,000 bushels of wheat are deposited the warehouseman does not have to deliver the same identical wheat, but he must deliver 1,000 bushels of the same grade. The warehouseman is justified in delivering the goods (1) to the person lawfully entitled to the possession of the goods or his agent; (2) a person who is either himself entitled to delivery by the terms of a non-negotiable receipt issued for the goods, or who has written authority from the person so entitled either indorsed upon the receipt or written upon another paper; (3) a person in possession of a negotiable receipt by the terms of which the goods are deliverable to him or order or to bearer, or which has been indorsed to him or in blank by the person to whom delivery was promised by the terms of the receipt or by his mediate or immediate indorsee. If the receipt has been in any way altered the warehouseman is liable only according to the original terms. If a receipt has been lost the warehouseman may be ordered by a court to deliver the goods, provided that loss or destruction of the receipt is proved and that the person to whom the goods are then delivered furnishes a bond to protect the warehouseman from loss in case the original receipt should ever be presented. The warehouseman is liable, unless the receipt specifically provides otherwise, for any loss or injury to the goods caused by his failure to exercise such care in regard to them as a reasonably careful owner of similar goods would exercise. Banks lend money on negotiable warehouse receipts covering staple commodities, and can safely lend on non-negotiable receipts

NEGOTIABLE WAREHOUSE RECEIPT

EAST AND WEST WAREHOUSE COMPANY

100 MAIN STREET

No...... *New York,*.....*192*.....

Received ON STORAGE IN WAREHOUSE, 100 MAIN ST., NEW YORK CITY, FROM..... THE FOLLOWING PACKAGES (CONTENTS AND CONDITION OF CONTENTS UNKNOWN) EX.....
SAID TO CONTAIN THE GOODS DESCRIBED BELOW.

MARKS	NUMBER	PACKAGES	KIND	DESCRIPTION

WHICH WILL BE DELIVERED TO ORDER ON PAYMENT OF THE CHARGES SPECIFIED HEREON AND THE SURRENDER OF THIS RECEIPT

EAST AND WEST WAREHOUSE COMPANY,

ADVANCES MADE
LABOR IN AND OUT PER
STORAGE PER MONTH PER

.....
President

only when the goods are stored in the name of the bank. The loan should be made only when the character of the merchandise has been examined by the lending bank and it is entirely satisfied in this respect.

STOCKS.—A certificate of stock represents part ownership in the property of a corporation and entitles the owner to his proportionate share of the assets and of the profits. Stock usually has no maturity and the owner must depend upon the liquidation of the business or the sale of the stock to recover the money represented by the value of the certificate. Stock is generally divided into two principal kinds—common and preferred. The former has control of the business by electing the directors. The latter is usually preferred as to assets in case of liquidation and in the distribution of earnings up to an agreed percentage. The preferred dividends may be cumulative, which means that if the earnings within a certain period are not sufficient to pay the preferred dividend for that period, then the back dividends on the preferred stock must be paid from earnings of subsequent periods before payments are made to the common stockholders. Stock certificates must be signed by the authorized officials of the company, bear the corporate seal, and specify the number of shares and name of the owner. Ownership may be transferred by indorsement and delivery but the transfer is considered incomplete, as a rule, until properly recorded on the books of the company. Dividends are payable by order of the board of directors, or by the terms of the stock certificate.

BONDS.—Bonds are certificates of indebtedness, really promissory notes, of a corporation, under the terms of which the owner is entitled to the payment of the principal, when due, and interest at a fixed rate payable at fixed periods. Bonds are frequently secured by the pledge of some specific security for their payment and take precedence over any stock outstanding, as to payment. A stockholder is an owner; a bondholder is a creditor with an obligation having a definite maturity. Bonds are classified in various ways but chiefly as to the evidence of ownership and transfer: (1) Registered bonds have the owner's name recorded on the books of the company, and interest when due is paid to the registered owner. This class of bond is similar to preferred stock in the way title is transferred and interest paid; (2) with registered coupon bonds, the principal is registered on the books of the company in the name of the owner and transfer of ownership is necessary. The interest, however, is paid with coupons which may be cashed by bearer when due, being merely small promissory notes for the stipulated interest rate, a coupon maturing and being detached for payment at each interest period; (3) coupon bonds are the most easily negotiable of any. Both principal and interest are payable to bearer on presentation when due. There are many other classes of stocks and bonds but the above-mentioned are the principal kinds. Any may be used as collateral for a bank loan, provided they are in proper negotiable form and represent proper value. Stock certificates would have to be indorsed in blank or owner-

ship properly assigned. The same provisions would be necessary with registered or registered coupon bonds. The bank would form its own estimate of the value of stocks and bonds as collateral, its opinion being based upon current quotations, book value and other like factors.

CHAPTER VIII

Federal Reserve Bank

BANKING BEFORE THE ESTABLISHMENT OF THE FEDERAL RESERVE SYSTEM.—The National Bank Act of February 25, 1863 (amended many times), controlled our National banking system until November 16, 1914, when the Federal Reserve banks were opened. This Act of 1863 provided that any National bank depositing Government bonds with the Treasurer of the United States should be entitled to receive circulating notes to an amount not exceeding 90% of the market value of the bonds. That is, if X bank deposited bonds with the United States Treasurer worth $100,000 on the market, the bank would be allowed to issue bank notes not to exceed $90,000. The National banks were prohibited from issuing any other form of notes to circulate as money. An Act of March 3, 1865, provided that notes issued by State banks should be taxed 10%. This tax was so heavy that State banks found it unprofitable to issue their notes. The original Act of 1863 had provided for the incorporation of National banks and a method by which State banks could become National banks. An Act of March 14, 1900, permitted the issuance of bank notes by National banks up to 100% of the market value of the bonds not to exceed par, instead of 90% as previously, and the formation of banks with capital as low as $25,000 was authorized.

CHARACTERISTICS OF THE BANKING SYSTEM OF THE UNITED STATES ON JUNE 30, 1914.—Under the operation of the National Bank Act of 1863, the United States had developed a very large number of small independent banks by 1914 which were scattered throughout the country. There were only a few large banks. The National Banking System provided for a National bank note issue unlimited in an aggregate amount, but depending upon the supply of Government bonds. These notes, although they were issued by a large number of different institutions, were absolutely secure but inelastic, owing to the methods of issue and redemption. The United States was the only country that regulated deposit banking by requiring minimum specified reserves. These reserves by law and custom were pyramided by permitting their deposit with other banks, the apex of the pyramid being in St. Louis, Chicago, and to an even greater extent in New York, where, despite every effort to keep the funds invested in liquid assets, they were not always found to be readily available.

NEED FOR BANKING REFORM IN THE UNITED STATES.—The National Bank Act proved inadequate to meet modern needs. There was a lack of elasticity in the currency of the country—that is, the periodical demands for money and currency coming from the great agricultural sections of the West and South could not be adequately met. The method of handling the bank reserves also proved imperfect and insufficient; vast sums of money were accumulated in

the three central reserve cities, New York, Chicago and St. Louis. The banks in these cities, especially as they paid interest on bank balances and were therefore forced to earn something with these funds, would lend out this money in the most liquid ways they could. When the banks throughout the country found it necessary to draw on the reserves they had in the large cities, to meet the seasonal demands of business and agriculture, the large city banks were required to call in their loans as rapidly as possible. This would frequently result in high money rates and radical declines in security prices. If business conditions in general were not especially good, a panic, or at least great alarm, would result. Another great defect in our system was the clumsy Independent Treasury System, designed to keep all government funds separate, and often resulting in withdrawing money from circulation at a time when it was sorely needed, and putting it back into circulation when there was plenty, thus increasing the money in circulation at a time when business needs did not require it. There was no good discount market for commercial paper; trade and bankers acceptances were almost unknown; and there was no control over gold movements to or from the country. Our system of check collections was imperfect and the banking system would not permit us to compete on an equal basis with the European banks, as there was no adequate means of extending American banking abroad.

THE FEDERAL RESERVE SYSTEM ESTABLISHED.—The Federal Reserve Act was

passed by Congress and approved December 23, 1913. The Federal Reserve banks were opened for business on November 16, 1914. The continental United States, excluding Alaska, was divided into twelve Federal Reserve districts, in each of which there is one Federal Reserve bank. The banks are located at Boston, New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Richmond, Minneapolis, Kansas City, Dallas and San Francisco. The Act also provided that these banks could establish branches with the approval of the Federal Reserve Board whenever it was necessary. The Federal Reserve Board may permit or require any Federal Reserve bank to establish branch banks within the Federal Reserve district in which it is located or within the district of any Federal Reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal Reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board. In accordance with this provision and to meet the business demands of the various districts, most of the Federal Reserve banks have established one or more branches in their respective districts.

THE FEDERAL RESERVE BOARD.—The operations of the Federal Reserve System are under

the supervision of the Federal Reserve Board which is composed of the Secretary of the Treasury and the Comptroller of the Currency, who are ex-officio members, and six other members appointed by the President of the United States by and with the consent of the Senate. The terms of office are arranged to expire in different years so as to provide for rotation of membership. Not more than any one member can be selected from any one Federal Reserve district. While the Secretary of the Treasury is ex-officio chairman, the Board has an executive officer who is called the Governor. This Board is in almost continuous session in Washington and its powers over the Federal Reserve banks are very extensive and altogether discretionary, including the right to examine their books and accounts, to require the publication of statements, to compel one Reserve bank to rediscount for another, to suspend reserve requirements, to grant the right to issue notes, to define the character of paper to be discounted, to approve rates of discount, to compel purchase of United States bonds, etc.

HOW FEDERAL RESERVE BANKS ARE CONTROLLED.—The control of each Reserve bank is vested in a board of directors composed of nine members. This board is divided into three classes, of three members each, designated as classes A, B, and C. The class C directors are appointed by the Federal Reserve Board and one of these class C directors is designated by the Federal Reserve Board as chairman of the board of directors of the bank and as Federal Reserve agent. The other six members known as

class A and class B directors are elected by the member banks of the district. For the purpose of selecting these six directors the member banks of each district are divided into three divisions or groups. The reason for this division is to assure the banks with a small and medium sized capital a voice in the control of the Federal Reserve bank. Thus in electing directors the smallest member bank has a single vote, the same as the largest member bank. Each division or group chooses one class A and one class B director. Three of the six, or class A directors, must be bankers, and the other three, or class B directors, must represent the industrial, commercial and agricultural interests of the district. Such board of directors shall hold office for equal terms of three years each, but these terms are so arranged that two directors retire each year, thus affording an opportunity for rotation in office.

WHO OWNS THE FEDERAL RESERVE BANKS?—They are owned by all the National banks in the continental United States, which are required by the Federal Reserve Act to subscribe to the stock, and by an increasing number of State banks and trust companies, which may subscribe under certain conditions. These stockholders, or member banks as they are usually called, have been required to subscribe 6% of their capital and surplus toward the capital stock of the district banks. Of this, one-half was paid in by May 6, 1915, and the remainder is payble upon call of the Federal Reserve Board. These "member banks" are entitled to receive a cumulative dividend

of 6% upon paid-in subscriptions; the remainder of the net earnings will be used for additions to surplus until it reaches 100% of the subscribed capital stock of such bank, after which only 10% of the net earnings shall be paid into the surplus account, and all additional net earnings shall be paid to the United States Government as a franchise tax. As amended June 21, 1917, the principal provisions of the Federal Reserve Act regarding the membership of State banking institutions in the Federal Reserve System are as follows:

(a) Subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board, State banks becoming members of the Federal Reserve System retain full charter rights and statutory rights; they may continue to exercise all corporate powers granted by the States in which created, and are entitled to all privileges of member banks. They are, however, required to conform to the reserve and capital requirements of the Federal Reserve Act and to the provisions of the law imposed on National banks which prohibit them from lending on or purchasing their own stock, and which relate to the withdrawal or impairment of their capital stock or to the payment of unearned dividends. They must be incorporated banks.

(b) A member State bank may withdraw from the Federal Reserve System after giving six months notice to the Federal Reserve Board, upon surrender and cancellation of its holdings of capital stock in the Federal Reserve bank, but a Federal Reserve bank

shall not cancel, during any one calendar year, more than 25% of its capital stock, except by express authority of the Federal Reserve Board. A member bank surrendering stock for cancellation is entitled to receive therefor a refund of its cash paid subscription, with interest at the rate of one-half of one per cent per month from date of last dividend, if earned; the amount refunded in no case to exceed the book value of the stock at that time.

(c) Unless the laws of the State in which it is organized impose such restrictions, a member State bank is not subject to the restrictions imposed on National banks limiting the amount of loans to any one person, firm or corporation. A Federal Reserve bank may not, however, rediscount for a State bank, notes, drafts or bills of exchange (exclusive of bills of exchange drawn against actually existing values and of commercial paper actually owned by the person negotiating the same), of any one borrower who is indebted to such State bank in an amount greater than 10% of the capital and surplus of such bank. A member State bank is required to furnish a Federal Reserve bank with a certificate to this effect, before a note, draft, or bill of exchange will be rediscounted.

(d) A member State bank is required to make reports of condition and of the payment of dividends to the Federal Reserve bank of its district, not less than three such reports being required annually.

(e) A member State bank is subject to examination under direction of the Federal Reserve Board, but is not subject to the provisions of the Revised

Statutes requiring two examinations annually by examiners appointed by the Comptroller of the Currency. Examinations by State authorities and reports thereon will be accepted in lieu of examinations under direction of the Federal Reserve Board, if approved by the directors of the Federal Reserve bank.

RESERVE OF THE FEDERAL RESERVE BANKS.—Federal Reserve banks are required to hold as reserves against deposits 35% in gold or lawful money, and against Federal Reserve notes in circulation, 40% in gold.

RESERVE REQUIREMENTS OF THE MEMBER BANKS.—Under the Federal Reserve Act all member banks are required to maintain a reserve against both their time and demand deposits. The reserve required against time deposits is much less than that required against demand deposits. Demand deposits within the meaning of the Act comprise all deposits payable within thirty days, and time deposits comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days notice before payment, and all postal savings deposits. Every bank, banking association or trust company which is or which becomes a member of any Federal Reserve bank shall establish and maintain reserve balances with its Federal Reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 7% of the

aggregate amount of its demand deposits and 3% of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 10% of the aggregate amount of its demand deposits and 3% of its time deposits.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 13% of the aggregate amount of its demand deposits and 3% of its time deposits.

The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities; provided, however, that no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored. In estimating the balances required by the Act the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal Reserve banks shall be determined.

NATIONAL BANK NOTES.—A bank note is a non-interest bearing obligation of a bank. It is payable on demand to the bearer in lawful money. Only Federal Reserve and National banks now issue them. The Federal Reserve Act of 1913 did not abol-

ish the right to issue National bank notes. Notes may be issued up to the par value of the bonds deposited, provided that the issue does not exceed the market value of the bonds nor the capital of the issuing bank. The Secretary of the Treasury has ruled in recent years that bonds valued at 95 will be satisfactory for $100 of notes. If the bank has a capital of $100,000 it will not be allowed to issue notes for over that amount. One National bank may not have in circulation at any one time more than $25,000 in notes of $1 and $2 denominations. Bank notes must be signed by the president and cashier of the issuing bank. National banks are compelled to redeem (pay in cash) their own notes at their own counter. All National banks are required by law to receive the notes of other National banks at par. Any National bank which issues notes may retire (cancel the obligation of the bank) its notes in sums of not less than $9,000 at one time by depositing lawful money with the Treasurer of the United States for their redemption. An equal amount of bonds will then be returned to the bank. But not over $9,000,000 of notes can be retired in any one month.

NOTE ISSUES PROVIDED FOR BY THE FEDERAL RESERVE ACT.—The note issues provided for by the Act of 1913 are of two kinds:

(1) Federal Reserve Notes: These are obligations of the United States loaned to the Federal Reserve banks and secured 100% by gold or gold certificates, or by commercial paper deposited with the Federal Reserve Agent and there must be at least a 40%

bank reserve of gold (of which at least 5% must be with the United States Treasury), and the notes are a first lien upon the assets of the issuing bank. These are redeemable in gold at the United States Treasury and in gold or lawful money at any Federal Reserve bank, and they are receivable by all National Banks for taxes, customs and other public dues. Such notes when redeemed by a Federal Reserve bank are promptly returned to the bank of issue. They are retired by deposits with the Federal Reserve Agent. The amount of this currency issued varies in accordance with the business needs of the country, thus securing the elasticity which the old system did not provide. As amended June 21, 1917, gold or gold certificates, as well as commercial paper, are accepted as collateral for Federal Reserve notes. The gold or gold certificates held as such collateral may be counted as part of the gold reserve which the Federal Reserve bank is required to maintain against its notes in actual circulation. This change results in all outstanding Federal Reserve notes being shown as a liability of the Federal Reserve bank and of gold or gold certificates deposited with the Federal Reserve Agent being included among the assets of the bank. There is a further provision that gold deposited with the Treasurer of the United States for the purpose of redeeming outstanding Federal Reserve notes shall be considered as collateral security on deposit with the Federal Reserve Agent. There is another provision requiring Federal Reserve notes, gold, gold certificates and lawful money issued to or deposited

with any Federal Reserve agent to be held in the joint custody of himself and the Federal Reserve bank under regulations to be prescribed by the Board.

(2) Federal Reserve Bank Notes: Notes may also be issued by Federal Reserve banks upon the deposit of United States bonds with the United States Treasurer. These notes possess the same form, and are issuable upon the same terms, as National bank notes are now issued. There is of course no limitation in respect to the bank's capital, as there is with National banks. The Federal Reserve Board may compel Federal Reserve banks to buy deposited United States bonds at par and assume the note liability of existing National banks at a rate not over $25,000,000 a year, provided the National banks ask to have their bonds taken over.

LOANS BY THE RESERVE BANKS.—The Federal Reserve banks may use their funds (1) in lending to member banks and in buying bills, notes, revenue bonds and warrants due within six months in anticipation of taxes or assured revenues by municipalities, etc., (2) in buying in the open market commercial drafts accepted or indorsed by member banks, thereby coming into direct touch with business men and producers. The Federal Reserve banks can buy and sell United States, State or municipal bonds or notes and gold bullion at home or abroad in the open market.

REDISCOUNTING.—Rediscounting occurs when a bank finds itself in need of funds, and takes some of the paper that it has discounted for custom-

ers to some other bank and discounts it; that is, "rediscounts" it. Of course, the bank must indorse, if the paper has been so drawn as to require it. When member banks discount at a Federal Reserve bank, the process is also known as "rediscounting." Federal Reserve banks are permitted to discount notes, drafts, and bills of exchange indorsed by member banks with a maturity at time of discount of not more than ninety days, the proceeds of which have been or are to be used for agricultural, industrial or commercial purposes. They are also allowed to discount agricultural paper with a maturity date at time of discount of not more than six months.

ACCEPTANCES.—Under the Federal Reserve Act any member bank may accept drafts or bills of exchange drawn upon it having not more than six months to run, exclusive of days of grace, which grow out of a transaction, or transactions, involving any one of the following: (a) The importation or exportation of goods. (b) Domestic shipment of goods, providing shipping documents conveying or securing title are attached at the time of acceptance. (c) The storage of readily marketable staples, providing that the bill is secured at the time of acceptance by a warehouse receipt, or other such document conveying or securing title. The Act limits the aggregate which any bank shall accept without security for any one person, company, firm, or corporation to an amount not exceeding at any time 10% of the bank's paid-up and unimpaired capital stock and surplus. This limit, however, does not apply in any case where the accept-

ing bank remains secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance. Such bills may be accepted by a member bank up to an amount not exceeding at any time more than one-half of the bank's paid-up and unimpaired capital stock and surplus; or, with the approval of the Federal Reserve Board, up to an amount not exceeding at any time more than one hundred per cent of the bank's paid-up and unimpaired capital stock and surplus. In no event shall the aggregate amount of the acceptances growing out of domestic transactions exceed fifty per cent of the bank's capital stock and surplus. The Federal Reserve Board has determined that any member bank, having an unimpaired surplus equal to at least twenty per cent of its paid-up capital, which desires to accept drafts or bills of exchange drawn for the purposes described above, up to an amount not exceeding at any time one hundred per cent of its paid-up and unimpaired capital stock and surplus, may file an application for that purpose with the Federal Reserve Board. Such application must be forwarded through the Federal Reserve bank of the district in which the applying bank is located. The approval of any such application may be rescinded upon 90 days' notice to the bank affected. The Reserve bank requires certain evidences of eligibility, and although the member banks may accept paper having six months to run, it is not eligible for rediscount at the Federal Reserve bank until such time as it has a maturity of not more than three months, exclusive of days of grace.

OTHER PROVISIONS.—National banks having a capital and surplus of $1,000,000 or more are permitted to establish foreign branches and also may invest an amount not exceeding 10% of their paid-in capital and surplus in the stock of one or more banks or corporations engaged in foreign banking. Until the passage of the Federal Reserve Act, a National bank could not loan money on real estate. The Federal Reserve Act provides that any National bank outside of New York, Chicago or St. Louis could make loans secured by improved and unencumbered farm land situated within its Federal Reserve district or within one hundred miles of the place in which the bank is located, irrespective of district lines and that it could make loans secured by clear or unencumbered real estate situated within one hundred miles of the bank's location. No such loan shall exceed 50% of the actual value of the real property offered as security. A National bank is not permitted to make such real estate loans to exceed in the aggregate 25% of its capital and surplus or one-third of its time deposits. No loans on farm lands should be made for more than five years and no loan on real estate should be made for more than one year.

EXCHANGE OR COLLECTION. — In order to provide an efficient and effective clearing and collection system, the Federal Reserve Act provides that any Federal Reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, National bank notes, Federal Reserve notes, or checks and drafts

payable upon presentation, and, also, for collection, maturing notes and bills, or, solely for purposes of exchange or of collection, may receive from other Federal Reserve banks deposits of current funds in lawful money, National bank notes, or checks upon other Federal Reserve banks, and checks and drafts payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any non-member bank or trust company deposits of current funds in lawful money, National bank notes, Federal Reserve notes, checks and drafts payable upon presentation, or maturing notes and bills; provided such non-member bank or trust company maintains with the Federal Reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal Reserve bank; provided, further, that nothing in this or any other section of this Act shall be construed as prohibiting a member or non-member bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed ten cents per $100 or fraction thereof. No such charges shall be made against the Federal Reserve banks.

GOLD SETTLEMENT FUND. — The Federal Reserve Board, under authority conferred by the Federal Reserve Act, has established a plan of clearing and settlement of balances through a central fund in the hands of the Federal Reserve Board at Washington, D. C., known as the "Gold Settlement Fund." When this plan was established, each Federal Reserve

bank was required to deposit with the Federal Reserve Board gold or United States gold certificates of one million dollars in excess of the net balances then due from it to other Federal Reserve banks, and each Federal Reserve bank is required to maintain a minimum balance of one million dollars in this fund, although the balances actually carried total several hundred million dollars. The net balances arising from clearings are settled by book entries in the gold settlement fund account. The operations of the Federal Reserve System have been more successful than could have been hoped for and with the exception of some very few minor defects, which are being gradually remedied, it is apparent that the System is the best in the world and one which has saved the United States from serious financial difficulties in the last few years.

CHAPTER IX

Elements of Contracts

DEFINITION OF CONTRACT.—A contract is an agreement containing a promise that is enforceable in law. "Agreement" shows that there must be at least two parties, one of whom has made an offer which the other has accepted. It must contain a promise to do something. It must be a promise that can be enforced in a court of law—that is, if one party refused to do what he had promised the other can go into court and compel him to do so or get damages. Not all agreements containing promises are enforceable in law—that is why we say that this enforceability is necessary to make a contract. For instance, agreements made jokingly, and social agreements, cannot be enforced in court. The motives which caused the parties to make the agreement have nothing to do with its enforceability. Contracts may result from words or acts.

IMPORTANCE OF STUDY OF CONTRACTS.—Practically every commercial transaction we can engage in rests on an agreement between parties. Arrangements for credit; promises to perform future acts; indorsements on bills and notes; agreements to pay another's debt; a bank's promise to pay checks drawn on a checking account; insurance policies—all of these are examples of agreements which are contracts. It can be seen, therefore, that a knowledge of the principles of the law of contracts is extremely

important to the banker, for he is continually concerned with the business affairs of other people, and he should know just what the duties and rights of a bank are in any transaction to which it is a party.

CONTRACT TO PERFORM WORK

This Agreement made this fourth day of April, 1922, between John Rogers of Mattoon, Illinois, and George Smith of the same place, witnesseth: That the said John Rogers agrees to work for the said George Smith as a laborer in the latter's lumber yard near the city of Mattoon, during a period of six months, beginning April 15, 1922, and ending October 14, 1922.

In consideration of the services so performed, the said George Smith agrees to pay to the said John Rogers the sum of Fifty Dollars per month, to be paid at the end of each month of said term.

In witness whereof, we have hereunto set our hands and seals the day and year first above written.

Witnesses:

C. E. Keagy
A. Q. Fulton

John Rogers { L. S. }

George Smith { L. S. }

EXPRESS VERSUS IMPLIED CONTRACTS.—Contracts are either "express" or "implied." Where there is an actual promise, either in writing or words,

the contract is express. When the obligation is determined by considering the conduct of the parties, it is a promise implied in fact. For instance, if Smith asks Jones to paint Smith's fence, but says nothing about compensation, a promise to pay the reasonable value of the work performed is implied. Likewise, a promise to pay is implied where a person, though he is not a subscriber, takes a newspaper from the post office through which it is regularly sent to him. In these cases there is a promise implied in fact—from the conduct of the parties. There is no obligation if the services are performed gratuitously or if the person receiving the benefit is in a position in which he has not been free to choose whether he shall accept the work or not. He must also have done something (which may be saying nothing) from which one could fairly infer that he had intended to pay. The law will impose an obligation where one person has benefited at the expense of another and circumstances exist under which it is just that the other man should be compensated.

FORMAL VERSUS INFORMAL CONTRACTS.—Contracts may also be either "formal" or "informal." Formal contracts are those under seal or record—that is, acknowledgments of debt entered on the records of a court, and contracts in writing and under seal (all contracts under seal are written).

Informal or simple contracts are also known as "parol contracts" and include all contracts not under seal or of record. They may be in writing or oral; it is a common mistake, when "parol contracts" are

SPECIMEN OF SEALED CONTRACT

$5,000 Buffalo, N. Y., May 15, 1922.

Sixty days after date I promise to pay to John Roberts Five Thousand Dollars.

In witness and confirmation whereof, I have hereunto set my hand and seal.

(Signed) JAMES ROGERS (Seal)

SIMPLE CONTRACT OR PROMISE TO PAY MONEY

July 3, 1922.

Thirty days after date I promise to pay John Smith two hundred dollars, for value received.

(Signed) RALPH RICHARDS.

mentioned, to believe that oral contracts only are meant. The chief difficulty with oral contracts arises when it is found necessary to prove their existence. The parties may actually have forgotten, or one party may be fraudulently trying to get some advantage over the other party. Much misunderstanding and dissatisfaction are likely to result from verbal contracts, and whenever possible contracts should be reduced to writing. Suppose A promises to pay B in three years $500, with interest at 6%. The promise is not in writing. If A dies it will be difficult for B to

FORM OF WRITTEN CONTRACT

THIS AGREEMENT, made in triplicate, this fifteenth day of June, one thousand nine hundred and twenty-two, by and between James Harrod, of Louisville, Kentucky, of the first part, and Rex Beisel, of Cincinnati, Ohio, of the second part, WITNESSETH, as follows:

First, that the said party of the first part, for and in consideration of the agreements herein stated, to be performed by the party of the second part, agrees to construct and finish in good and workmanlike manner for the party of the second part, on a lot belonging to him, known as 1109 Perry Avenue, in Cincinnati, Ohio, one wooden garage, in accordance with the plans made by Tyler Woodruff, architect, of Cincinnati, Ohio, said plans being attached to this agreement. Said garage is to be constructed of materials to be passed on by the said Tyler Woodruff before they are used. Said garage is to be ready for occupancy by the first day of August, one thousand nine hundred twenty-two.

Second, that the party of the first part further agrees that in case he shall fail to have the garage ready for use by the date above specified he will pay to the party of the second part ten dollars as liquidated damages, for such delay, for every day that the completion of this contract is delayed.

Third, that the party of the second part, in consideration thereof, agrees to pay to the said party of the first part for the same the sum of one thousand dollars, in lawful money of the United States, when the said garage is ready for occupancy. The party of the second part further agrees to pay all charges for services made by the aforementioned Tyler Woodruff in connection with the said garage.

IN WITNESS WHEREOF, The parties to these presents have hereunto set their hands the day and year first above written.
Witnessed by:

STEPHEN CODY
IRA HALL

(Signed) JAMES HARROD
REX BEISEL

prove that the promise was ever made, unless there were others who heard it made. Or the parties may disagree over the amount of the principal or the interest, or whether the interest was to be simple or compound. The mistake may be an honest one, or one party may be trying to gain some advantage by deliberate falsification. Even witnesses may disagree —a man's memory is not as reliable as a memorandum in writing over his own signature. We do not have space here to give the rules by which the terms and existence of oral contracts must be proved. As a result of the difficulty of proving their terms and existence, what is known as the Statute of Frauds was passed in England in 1676, which statute has been adopted generally in the United States. It provides that certain contracts must be in writing, or properly evidenced in some other way, to make them valid. In most cases, however, an oral contract is just as valid as one in writing. Contracts do not have to be sealed or witnessed. The wording of written contracts may be very simple, but should state fully the intention of

SIMPLER FORM OF WRITTEN CONTRACT

A and B do hereby mutually agree as follows: A to (state what A promises); B to (state what B promises).

Boston, Mass., June 5, 1922. A.

B.

the parties. Even where contracts are required to be in writing, this writing may be a brief note or memorandum.

VOID VERSUS VOIDABLE CONTRACTS.—There is an important distinction between "void" and "voidable" contracts. Confusion sometimes arises from the failure to understand the difference. A contract is void when the law declares it to be so absolutely—there is no contract whatever and no change in the legal position of the parties; it cannot be ratified. A voidable contract, on the other hand, binds one party but not the other; it is valid until it is avoided by the party entitled to avoid it (refuse to do his part). Until thus disaffirmed it is binding. It may be ratified. Thus, A agrees to sell a $5,000 automobile to B, a minor (not yet 21 years of age). A is bound to furnish the automobile and cannot plead that B was not of age; B may refuse to take the automobile, in which case A is helpless; B may ratify after becoming of age—that is, agree to fulfill his part of the contract he had entered into when a minor. As we shall see later, a minor is bound to pay for necessaries, but even then only a reasonable price. For instance, B, a minor, agrees to purchase a $30 suit from A, who furnishes the suit. B then tries to avoid paying for it, alleging that when he entered into the contract he was a minor and therefore could not be bound on the contract. He will be compelled to pay A for the suit, but only what it is worth—the reasonable value—regardless of the fact that he had agreed to pay $30.

ESSENTIALS OF CONTRACTS.—We shall next consider the various elements necessary to make a contract enforceable in court, either by the compelling of specific performance or the payment of damages for non-performance. The contract must have a legal object, competent parties, offer and acceptance, reality of consent, and consideration.

LEGAL OBJECT.—When an agreement has an illegal object it is not a contract and is not enforceable at law. A contract must have a lawful purpose. Clearly, if a man should bind himself to another to kill a third party he could not be compelled to perform his agreement. Illegal agreements may be in violation of statutes or against public policy. An agreement directly opposed to the constitution or the statutes of the United States, or of the State to which the parties are subject, or infringing a Federal treaty, will not be enforced by the courts. There are any number of laws which may invalidate agreements made in disobedience to them, but we shall mention here only a few of the more important. Most States by law forbid the transaction of business on Sunday. The courts, however, will usually enforce a business agreement which has been entered into on a Sunday if it has been ratified on a week day. The law would not, generally, affect contracts entered into on Sunday the object of which was to aid a church or other charity. Contracts for gambling or wagering are usually forbidden. Wagers on the rise or fall of prices (stock market transactions) are illegal only where there is no intent to

deliver or receive the stock. At one time insurance was a favorite wagering contract. Insurance contracts are now permitted by law, provided that the person taking out the insurance has some insurable interest in the life or property which the policy covers. Contracts for usury are illegal. In most States the statutes limit the rate of interest which may be charged for the use of money. Of course the amount of interest may be fixed below the rate established by law. The penalty for those who stipulate for a higher rate of interest than the maximum varies greatly, while a few States have no penalty at all. Agreements against public policy are those deemed injurious to the public welfare. They may be against the Government itself or some established interest of society. Public health and morals must be protected and agreements to do something which will interfere with them are unenforceable. Agreements to influence legislation; interfering with the marriage relation; suppressing bidding, either on contracts or at a public sale; obstructing justice; aiding a public enemy; inducing the commission of crime — are contrary to public policy and void. In many cases the agreement is void and there is a penalty for entering into it.

EFFECT OF ILLEGALITY.—Where one provision in a contract is void for illegality (and is not the contract's main or essential feature) but can be clearly separated from the other parts relied on, such other parts are not affected by the invalid part, and they may be enforced with the same force and effect as if the invalid provision had never been in the con-

tract. For instance, Allen sells his business to Harrowby for $50,000, and in consideration of $10,000 more, agrees not to engage in a similar business again anywhere in the State. The second agreement is illegal, because it is an unnecessary restraint of trade, but as it rests on a separate consideration and can be separated from the legal part, the latter may be enforced (the agreement to sell the business). But if for $50,000 Allen had agreed to sell his business and not to engage in business in the State, then the whole agreement falls, for it would be impossible to say how much of the $50,000 was for the sale of the business and how much for the agreement not to engage in the business again. The rule is that if any part of an indivisible contract (where we cannot find a separate consideration for the illegal part) is void for illegality or reasons of public policy, then neither of the parties can enforce any of its provisions against the other. If the parties are not in pari delicto (equal guilt) the courts may aid the party who, compared with the other, is innocent of an illegal intent, to recover any money he may have paid. When equity and justice require it, the court will afford relief to the more innocent party even after the contract has been performed. For instance, a marriage broker induces an ignorant foreigner to pay him money to secure a wife for the latter. The court will permit the foreigner to recover the money, holding that the parties are not in equal guilt, since the foreigner is ignorant and has been induced by the broker's superior ability to part with his money.

COMPETENT PARTIES. — Not only must there be a legal object to a contract, but there must be competent parties. Competent persons are those who have the power and capacity to enter into the formation of valid contracts. Corporations may make contracts in furtherance of the purposes for which they are organized. This power need not be expressly granted. Contracts not within the scope of the purposes for which the corporation is organized are said to be "ultra vires." There is considerable difference of opinion over the question of how far such contracts will be enforced, when they have been partly performed. Aliens may generally contract the same as citizens; contracts with alien enemies are, as a rule, absolutely void. As regards other persons there are generally two restrictions, (1) persons lacking mental capacity; (2) persons lacking legal capacity, though they may have mental capacity. Persons lacking mental capacity are lunatics, idiots and drunkards. Contracts with such persons, except for necessaries furnished in good faith and under justifiable circumstances, are either voidable or void. To be able to escape a contract made while under the influence of liquor, a person must have been so much intoxicated as to have been unable to understand and appreciate the nature of his acts. Insane persons, provided they recover their reason, may ratify contracts made while in their former condition. Persons lacking legal capacity to contract are infants and, in some jurisdictions, married women. Infants are persons under twenty-one years of age. In many States

women become of age when eighteen, and in some prior to that time if married. Contracts made during infancy are voidable and not void—that is, they may be evaded by the infant but not by the other person, who is not allowed to plead the infancy of the former as a reason for not fulfilling his part of the agreement. They may be avoided by the infant even after he becomes of age. Infants, however, are liable for necessaries furnished them—but only for their fair value. Necessaries include not only the bare necessities of life but those things necessary to the infant to maintain his station in life. To recover against an infant the plaintiff must show (1) that the articles were in fact necessaries; (2) that the infant was not already supplied with them; (3) their reasonable market value. When an infant repudiates a contract he must repudiate the whole contract; he cannot accept one part and escape the rest. Infants are liable upon contracts that they ratify. Ratification occurs when, after becoming of age, the infant either promises to perform what he has agreed to do, or does some act from which such promise can be implied. Under the old common law married women could not contract at all; all contracts made by them were absolutely void. Modern legislation, however, has greatly enlarged everywhere their power and capacity to contract. In general a married woman may now contract as fully as a single woman, and may sue and be sued apart from her husband.

OFFER AND ACCEPTANCE.—"Offer" and "acceptance" are neccessary to create a binding obli-

gation between parties. An "offer" is a proposition to enter into a contract; an "acceptance" is a proper manifestation by the party to whom the offer is made of his assent to it. Both the offer and its acceptance are necessary. In many cases it is necessary to analyze carefully the negotiations between the parties to discover whether there have been an offer and an acceptance, especially when the negotiations have continued over some time and there has been a variety of terms proposed. The reason is that it would be unfair to bind one party to a transaction unless the other party had had the same thing in mind. It is necessary that the minds of the parties shall meet and that they shall agree upon all material parts of the alleged agreement. Yet if the party who made the offer (the "offeror") had made his offer in definite terms and had taken reasonable steps to inform the other party (the "offeree") of them, then the law presumes that the second party in accepting the offer accepted on those terms, and a "meeting of the minds" is presumed to have occurred. There must be serious intention to enter into an agreement. A jesting agreement is not binding, even though the parties go through the form of making a contract, if they had not intended it to stand. It is dangerous, however, to make offers or acceptances in jest, for if the joke is so well carried out that it is likely to deceive, one of the parties may enforce it in court if he alleges that he took it seriously.

OFFER.—The offer must have been communicated to the offeree, the manner of communication

being immaterial, because it is impossible for a person to assent to something of which he did not know. In a New York case A offered a reward of $200 to any person giving information leading to the arrest and conviction of a certain murderer. B gave the information before he knew the reward had been offered; it was held that he could not get the reward since he had not acted in reliance upon the offer. Acceptance of the offer must be established by proving that the act was done in reliance upon the offer. It must be clearly shown also that the alleged offeror actually intended to make an offer. Mere statements of price are not offers which will bind one if accepted by the other party. In a leading case Kershaw & Son wrote to Moulton: "In consequence of a rupture in the salt trade, we are authorized to offer Michigan fine salt at 85 cents per barrel. Shall be pleased to receive your order." Moulton telegraphed that he would take 2,000 barrels, which Kershaw refused to deliver. The court held that there was no offer which bound Kershaw when Moulton telegraphed his order. Kershaw's letter was held to be merely an advertisement or business circular, to call attention to the fact that good bargains in salt could be had by applying to him. As it was not an offer Moulton's rejected order could not unite with it to form a contract. In another case A telegraphed B: "Will you sell Bumper Hall pen? Telegraph lowest cash price." B replied: "Lowest price for Bumper Hall pen $4,500." A telegraphed at once accepting the alleged offer. The court held that no contract had been made, since

B's telegram was not an offer. Statements made in the form of an offer may be made under such circumstances that no offer will be held to have been made. In a Tennessee case A, who had just been wounded and his son killed in a shooting affray, exclaimed that he would give $200 for the arrest of the assailants. B later helped arrest the assailant and sued for the recovery of the reward. But since A was greatly excited the court said that his statement should be regarded as a mere exclamation and not as an offer. We have just seen that not all proposals in the form of offers are to be so regarded. Ordinary advertisements are not construed as offers, but merely as invitations to deal with the advertiser. Circular letters sent to the trade by a wholesale merchant fall within the same rule. But it is not impossible to word an advertisement in such a way that it will be an offer, for it may be clear in the advertisement that its author intends it to be an offer. In a famous English case the Carbolic Smoke Ball Company advertised that they would pay $500 reward to anyone who used their smoke ball three times daily for two weeks, and contracted influenza. A purchased one of the balls; used it as directed; contracted influenza; and then sued for the reward. It was held that there was a valid contract and that he could get the $500. The court said the company had plainly meant the advertisement to be an offer, because it stated that there had been deposited $500 in a certain bank as evidence of good faith, and this statement would justify A's belief that this was a real offer and not an ordinary adver-

tisement. An offer may be changed or revoked (withdrawn) before it is accepted. The person to whom the original offer was made must be informed of the revocation. Thus, if A says to B: "I will give you $50 for your watch," he may withdraw this offer any time before B, by words or conduct, signifies that he will accept. Suppose A wrote to B, before the latter had accepted, saying that he withdrew his offer; B would still have the right to accept until he received A's letter. A change in the terms or conditions of an offer is the same as a new offer, but the changed terms must be brought also to the attention of the offeree, or he may accept the old offer. There are, however, some qualifications to the rule that an offer may be changed or revoked before it is accepted. If B gives A $10 to keep a certain offer open for two weeks, then A cannot withdraw his offer before that time. Such arrangements are known as "options." If A had said he would keep the offer open two weeks but had received nothing from B for saying he would, then he can withdraw his offer any time before it is accepted. Where an offer is made to the public generally, as where a reward is offered for the arrest of a criminal, then it will be enough to make the withdrawal in the same way the offer was made (through the newspapers or by circular, etc). The one who makes the offer does not need to notify the offeree himself that he has decided to withdraw his offer; the latter may learn it from a third party and lose his right to accept. An offer will not continue indefinitely where there is no statement that it is limited to

a certain time. In such cases the offer is said to expire when a reasonable time has passed; in each case the question of what is a reasonable time is one which

AN OPTION AGREEMENT

Cleveland, Ohio, June 6, 1922.

This agreement witnesseth that George H. Jones promises to pay Ralph Clark One Hundred Dollars ($100) five weeks from today. In consideration whereof, Clark hereby gives Jones an option, good during the remainder of the month of June, 1922, to purchase Clark's farm "Blackacre" for Four Thousand Dollars ($4,000). Unless Jones gives Clark written notice by June 30, 1922, that he will buy the said farm at the said price, this option shall be void. In any event, Jones shall be required to pay Clark the before-mentioned sum of One Hundred Dollars ($100) five weeks from date. If he shall exercise this option, the said sum shall be applied toward the purchase price of the farm "Blackacre."

(Signed) GEORGE H. JONES.
RALPH CLARK.

depends on the facts. Where the person making the offer dies before it is accepted, the offer is held to have been revoked. It is not necessary to give notice of his death to the offeree. The same rule holds where the person making the offer becomes insane before it is accepted.

ACCEPTANCE.—The acceptance of an offer must be unqualified—in accord with the exact terms of the offer. If A says to B: "I will sell my farm for $10,000," and B says: "I will consider your offer, but I offer you now $8,000 for the farm," it is held that this is a rejection of A's first offer and a new offer by B to A. B could not afterwards say to A: "I accept your offer to sell me your farm for $10,000" and force A to sell it to him. The acceptance must be communicated to the person who has made the offer, and in the manner which he had intended. Where an offer is made by mail it is natural to suppose that the acceptance is to be made by mail and, unless some other method is expressly specified, the acceptance becomes binding as soon as it is mailed. A person cannot force another person to accept or refuse an offer; for instance, A cannot say to B: "I have shipped you certain goods at certain prices, and if I do not hear from you will consider you have accepted them." B is not bound to notify A he will not take the goods; this is a convenience, for it would be a hardship to allow manufacturers or others to ship goods to anybody without request and then say that unless the other party notified them he would have to pay for the goods. Where an offer is made to a specific person, only that person can accept. If the offer is to the public in general, then any member of it who does what is asked for becomes a party to the contract. Sometimes an offer says: "Reply by return mail." This does not mean the first mail that goes out, but a letter posted on the day the offer is received.

REALITY OF CONSENT.—There must be a real understanding between the parties as to the contract they have entered into. Both must have had the same thing in mind. Although there have been offer and acceptance, the consent shown by them may not be real. There are five things which may deprive an agreement of reality of consent—mistake, misrepresentation, fraud, undue influence, force. They will not render the contract void, but only voidable.

(a) Mistakes are not usually important enough to overthrow a whole agreement. But where both parties think the subject matter of the contract exists but are wrong, then no contract can arise; and when they are mistaken as to the identity of the subject matter then the same thing is true. However, when both parties are mistaken as to the quality of an article the contract is usually not affected. If only one party is mistaken as to the quality of an article the contract is usually not affected. If only one party is mistaken the contract is still good if he was not deceived by the other party. This is not true where the nature of the contract is concerned. If A persuades B to sign a check by pretending that he is signing something else, B is not bound to pay A. And if B thought he was dealing with C, with whom he has been accustomed to deal, but whose business had been bought by A, then he is not bound on a contract with A, since everybody has a right to choose the people with whom he deals. When one party to a contract innocently misleads the other, the second party can refuse to do his part if he can show that he was justified in relying

on the other's statement and that the statement was relied on by him and had resulted in injury or loss to him.

(b) Fraud is different from misrepresentation in the fact that one person has deliberately tried to deceive the other. A party can refuse to perform his part of a contract on the ground that the other party practiced fraud upon him if he can show (1) that he believed the other's statements; (2) that as a result of those statements he gave his consent to the agreement; (3) that he has suffered as a result of the fraud.

(c) Undue influence is a wrong use of power over somebody else's will which causes that person to make contracts or gifts that otherwise he would not have made. Superior intellect is frequently used for this purpose.

(d) Force consists in actual or threatened force to another if he does not do some particular thing. The person making an agreement, when forced to do so by the threats of another that he will injure his body or his property, may afterward repudiate the contract.

CONSIDERATION.—When we say there must be "consideration" in a contract we mean that neither party has a right to get anything from the other unless he has given or promised something in return. Various definitions of consideration are to be found in the text-books and judicial opinions. A sufficiently comprehensive one is: A benefit to the party promising, or a loss or detriment to the party to whom the promise is made. "Benefit" as thus employed, means

that the promisor has, in return for his promise, acquired some legal right to which he would not otherwise have been entitled. And "detriment" means that the promisee has, in return for the promise, forborne some legal right which he otherwise would have been entitled to exercise. In all forms of contracts a consideration is absolutely necessary in order to enable either party to compel the other to do that to which they have agreed. In negotiable instruments, such as checks and drafts, the consideration is presumed to exist until it is proved that it does not. In most other forms of contracts the consideration need not appear on its face, but may be proved by parol or inferred from the terms of the agreement. Consideration can easily be understood if we view it as a price paid, without which the party receiving it would not have made the contract. Suppose A promises B $500 as a present and gives him a promissory note for that amount. B cannot make A pay him the $500, because there is no consideration for A's promise. But suppose B had given A his horse, worth $100, in exchange for A's promise to pay the $500. In that case A can be compelled to pay the $500, because there is consideration and it is not necessary that the consideration equal the promise in value. Frequently in business transactions of all kinds we find considerations of $1 paid, which will enable one to enforce agreements concerning even thousands of dollars. A past consideration or a moral obligation will not support a promise to do something. Thus, suppose A finds B's automobile, which has been stolen, and returns it

to B. B promises to pay him $100 as a reward. A cannot enforce this promise, because: (1) it rests on a past consideration; (2) A was under a legal duty to return the automobile to its owner. Suppose there had been no legal obligation to return the found automobile, but only a moral obligation. The promise could not be enforced in that case, for the law will not concern itself with moral obligations or ethical considerations. It is not necessary that the promisor (the one who makes the promise) receive any benefit from the consideration given by the promisee. For instance, A promises to give B his $50 watch if B will paint C's barn. B does so, after obtaining the consent of C; he can force A to give him the watch, even though A may not have received any benefit from what B has done. Where the consideration itself is illegal, no legal contract results. Thus, A promises to pay B $100 if B will steal some papers from C. B gets the papers, but he cannot recover the $100, because what he has done is illegal. Promises to pay money lost in gambling cannot be enforced, since all gambling contracts are illegal. At common law a contract under seal need not be based on a consideration, it being held either that the seal imports a consideration or takes the place thereof. This rule is now altered by statute in many jurisdictions, which either makes a seal merely prima facie evidence of consideration, or abolishes the difference between sealed and unsealed instruments.

CONTRACTS THAT MUST BE IN WRITING.—Some contracts are required by law to be in

writing. The Statute of Frauds, enacted in 1676, was the first great law to say what contracts should be in writing. It has been passed by the legislatures in almost all the States. The fourth section of the statute says that the following kinds of contracts must be in writing:

(a) Promises by executors or administrators to pay personally something due from the estates they are administering.

(b) Promises that another person will pay his debts (guaranty and suretyship).

(c) Promises to do anything, such as changing the ownership of property, in consideration of marriage; that is, where the marriage itself is the consideration for the promise as to the property.

(d) Contracts for the sale of lands or any interest in them must be in writing. Oral contracts for the sale of real estate are generally not worth anything. The phrase "interest in lands" includes such things as contracts for the sale of uncut timber, grass, minerals in the soil and growing crops of various kinds—before taken from the soil.

(e) Contracts not to be performed within one year from the time the contract is made must be in writing. But if it may be fully performed within one year it does not have to be in writing.

The seventeenth section of the statute provides that a contract for the sale of goods, wares and merchandise (that is, any personal property) worth $50 or more must be in writing unless the buyer (1) accepts part of the goods sold and has actually received

SPECIMEN FORM OF GUARANTY — REQUIRED TO BE IN WRITING

I hereby guarantee to any person advancing money to Aleck Stewart not exceeding One Thousand ($1,000) Dollars, the payment therefor at the expiration of the credit which shall be given.

PERRY MONTAGUE,
1521 Xerxes Avenue,
Toledo, Ohio.

February 14, 1922.

them or (2) gives something in part payment. This amount, however, varies in the different States and in some States this section is not included in the Statute of Frauds.

INTERPRETATION OF CONTRACTS.—A contract is an agreement. Judges try to discover the real meaning of the parties to contracts. Every word or phrase used in a contract is important, since it is difficult to prove by other evidence that the words used should not be strictly construed. Judges will give to all words their ordinary meaning unless it appears that they were used in some technical sense. Business customs are often considered in trying to prove what the parties to a contract really meant. When printed clauses or words do not agree with written ones the written ones will always be considered as expressing the real meaning of the parties.

ASSIGNMENT OF CONTRACT

For value received I hereby assign to X the within contract.

St. Paul, Minn., June 29, 1922. A.

RELATION OF THIRD PARTIES.—No one can be made liable on a contract who is not a party to it. A and B have no power to make a private agreement which can compel C to do something. Suppose A and B had agreed that B was to do something for C. Can C sue B if B does not do what he has agreed to? Here the contract has been specifically made for C's benefit. In this country the general rule is that a third person may enforce a promise made for his benefit even if he has furnished no consideration for the promise. If, after A and B have made a contract, can they both agree with X that he shall take B's place? This is permitted, and is really a new contract. But can A, without obtaining B's permission, give his (A's) rights to X and compel B to deal with X? In most kinds of transactions this is permitted. But A would still be liable to B if X did not do what A had agreed to do.

DISCHARGE OF CONTRACTS.—Contracts may be discharged (obligations destroyed) by acts of the parties. Both parties may agree to abandon a contract they have made. Or if one party fails to do his part the other is not compelled to do his, and may

sue the first party for his failure. Where one party promises never to sue the other if he does not do his part, this is equivalent to releasing the other party. Both parties may agree to substitute a new agreement for the old one. The contract may itself say that either party may abandon it within a certain time. When either party does what he has promised to do he is discharged. A contract may also be discharged because when it was made it was impossible for one or both of the parties to do what they promised. When it becomes impossible after the contract is made to do what was agreed on, the contract will not be discharged except:

(a) Where a change in the laws or some act of law makes it impossible legally to do what was agreed.

(b) When the existence of a specific thing is necessary, its destruction will discharge the contract, unless, of course, one of the parties was to blame. Thus, A agrees to rent a hall to B. The hall burns down before the time when B was to occupy it. The contract is discharged.

(c) When one party has agreed to work for another, the death or disability of the one who has agreed to do the work will discharge the contract.

A person may be discharged by being declared a bankrupt.

CHAPTER X

Special Problems in Law

RELATION OF AGENT AND PRINCIPAL.—One man may employ another to mow his lawn, but there are no relations here that inevitably seem to affect the rights of other parties. But when one man employs some one else to represent him in dealing with a third person, the relation of agency arises. It can only arise from contract, express or implied. The agent is not subject to the direct control of the principal. A employs B to purchase an automobile for him. B does so. A is the "principal" or employer; B is the "agent." The law of California defines an agent to be "one who represents another called the principal in dealings with third persons; such representation is called agency." Agents are of two classes: (1) "general" and (2) "special." A general agent is authorized to conduct all the business of the principal, or at least all the business of a particular kind. A special agent is authorized only to do one or more specific acts for his principal. Whatever business a person can transact himself he may transact through an agent. Of course, what he cannot do himself he cannot accomplish through another. The act of the agent is really the act of the principal.

HOW AGENCY IS CREATED AND TERMINATED.—In general any person who can make a contract can appoint an agent. Some persons who cannot make contracts themselves may be agents, at

least so far as binding the principal and a third party is concerned. An agency may be created by an express agreement between the parties (principal and agent). This agreement may be oral or written. If written it may also be sealed. An agency may also be implied from conduct; for instance, partners are held to be the agents of each other; a guest at a hotel could assume that the clerk has authority to take charge of money handed to him for safe-keeping. Agency may arise from relationship; a wife can bind her husband to pay for necessaries which she has purchased. If A allows B to represent himself as A's agent, and does not protest, he cannot later deny that B was his agent; that is, the agency is created by estoppel. (The term "estoppel" is defined as follows: when a party by conduct or language has caused another reasonably to believe in the existence of a certain state of things, and the other party acts on that belief, the first party is precluded from denying the existence of that state of things to any one who has justifiably relied on his language or conduct.) Suppose B acts as A's agent, but without the knowledge of A. If, when A learns of it, he takes advantage of B's acts, he cannot then deny that B was his agent. He is held to have ratified B's unauthorized act. Since agency is the result of a contract it can be terminated only in the ways that an ordinary contract may be terminated; that is, by complete performance; by the express terms of the contract, which may provide for its termination; by mutual agreement of the parties; by impossibility of performance; by operation

of law; or by breach of the contract. Under "operation of law" would come the bankruptcy of the principal, which will discharge the contract; but the bankruptcy of the agent does not necessarily terminate his agency. The death of either party will terminate the agency.

LIABILITIES OR DUTIES OF THE PRINCIPAL.—A principal is under certain obligations to his agent and to third parties. He is under obligation to pay the agent his compensation. The amount of the compensation or salary may be stated in the contract or it may be based on the reasonable value of the services rendered. Unless it is otherwise agreed, an agent will not be entitled to compensation until he performs what he has agreed to do. He is entitled to be reimbursed for any money he may have advanced for his principal. A principal's liability to third parties includes his obligation to perform all contracts made by his agent within the scope of the agent's authority. A bank cashier is an agent of his bank and has power to draw checks or drafts upon the funds of the bank; to indorse and transfer negotiable paper (checks, bills, notes); to certify checks drawn by depositors; to collect money due the bank; to borrow money for the bank and to loan money. Sometimes when an agent deals with a third person he may not tell the latter he is acting for a principal. An agent is always liable in such a case.

LIABILITIES OR DUTIES OF THE AGENT.—An agent also owes duties to his principal and to third parties. He must use the utmost care

in protecting his principal's interests. He must not make any secret profits himself and any contracts he may make must be accounted for to his principal. He must strictly obey the lawful instructions that his principal may give him, and is liable to the principal for any loss to the latter that the agent's negligence and lack of care may cause. He must use reasonable prudence in carrying out the affairs of his principal that have been intrusted to him. Generally speaking, an agent must act in person and cannot delegate his authority to some one else. That is, if A authorizes B to act as his agent, B cannot turn over this agency to C, for A has a right to say whom he wishes to act as his agent. An agent must also, whenever demanded, give complete reports to his principal. An agent is liable to third parties if he exceeds his authority in such a way that his principal is not bound, and thus is liable for any fraud committed by him while on the principal's business. Suppose A makes a contract with B, telling B that he is acting for X. As a matter of fact X does not exist. Then A is liable to B. If an agent makes a contract with third parties in such a way that his principal is not bound, then the agent is liable himself. "We, as Directors of the A. B. Corporation, promise to pay to X's order five hundred dollars. C, D, E, Directors of the A. B. Corporation;" in this case the A. B. Corporation is liable, for it is the corporation's promise. Suppose the note had read "We promise to pay, etc.," and had been signed by C, D and E; here the corporation would not be liable, but C, D and E would be liable

individually. Suppose an agent does not disclose the name of his principal. When the third party finds out who the principal is, then he may hold either the agent or the principal (but not both).

POWER OF ATTORNEY.—A power of attorney is a written or printed paper by which one person gives authority to another person to act for him; it must state the extent of the authority given and specify just what power the attorney has. It must be signed and acknowledged before a notary public or other officer authorized by law to take acknowledgments. After a power of attorney has been executed and delivered, the signature of the second party (the one to whom the power of attorney is given and who is called the "attorney in fact") has just as much force as if the first party had signed himself. A power of attorney is construed strictly, and the agent (the person to whom it is given) can exercise no other powers than are expressly stated in it. In cases where the agent is authorized to make contracts which must be under seal, then the authority of the agent (the power of attorney) must also be under seal. An agent must have a power of attorney: (1) To execute a deed of conveyance for his principal; (2) to execute a mortgage; (3) to execute a lease of lands for more than three years; (4) to transfer title to or interest in a ship; (5) to execute a bill of sale under seal; (6) to execute a bond; (7) to execute an enforceable promise without a sufficient consideration to support it; (8) any other formal document. While a power of attorney is necessary in the foregoing

POWER OF ATTORNEY

Know all Men by these Presents, That .....
..... of .....
have made, constituted and appointed, and by these presents do make, constitute and appoint ..... my (or "our") true and lawful attorney for me (or "us") and in my (or "our") name, place and stead,

First: To draw checks against my (or "our") accounts in the ..... Bank;

Second: To indorse notes, checks, drafts and bills of exchange for deposit in said ..... Bank or for collection;

Third: To borrow money from the said ..... Bank and to execute and to deliver any notes, bonds and other instruments necessary therefor or required in connection therewith and to assign and deliver as collateral security for such loans, or any loans to me (or "us or either of us") stocks, bonds, warehouse receipts and other personal property and the evidences thereof owned by me (or "us or either of us") or in which I (or "we or either of us") shall or may have any interest;

Fourth: To indorse and sell any paper that I (or "we or either of us") may offer said Bank for purchase;

Fifth: To draw and accept drafts and bills of exchange;

Sixth: To accept and waive demand for payment, protest and notice of protest of notes, checks, drafts and bills of exchange;

Seventh: To do all acts requisite or desirable for carrying out or effectuating any of the foregoing powers, with full power of substitution and revocation, hereby ratifying and confirming all that said attorney and his ("her or its") substitute shall do in the premises by virtue of these presents.

In consideration of the recognition of this power of attorney by the ..... Bank, I (or "we") hereby agree for myself (or "ourselves") and my (or "our") legal representatives to indemnify and save harmless the said ..... Bank from any loss or damage that it may sustain through relying upon the apparent authority of this power after its termination by operation of law, but before actual notice thereof.

In Witness Whereof, I (or "we") have hereunto set my (or "our") hand(s) and seal(s) this.....day of ..... in the year of our Lord, one thousand nine hundred and .....

..... (Seal)

Signed, sealed and delivered in the presence of

.....

State of }
County of } ss.:

On this ..... day of..... 19....., before me, a Notary Public (Prothonotary or Commissioner of Deeds, etc, as the case may be), in and for the County of....., in the State of ....., personally came and appeared ..... to me known, and known to me to be the individual described in and who executed the foregoing instrument, and who acknowledged to me that ..... had executed the same as ..... free act and deed and for the purposes therein set forth.

In Witness Whereof, I have hereunto set my hand and affixed my official seal this ..... day of..... 19.....

..... (Seal)

cases, to make the acts of the agent binding, it may be used in other cases. Powers of attorney are often used in the transfer of stock certificates. It is incumbent upon persons dealing with "attorneys in fact" to examine the power of attorney in order to determine just what power the agent has.

PARTNERSHIP.—A partnership is a relation growing out of a contract, in which two or more persons agree to do business as a firm. The losses and profits must be shared between them (this is usually the test as to whether a partnership really exists in a given case). Partners have certain relations to each other. No person can become a member of a partnership without the consent of all the members. Suppose A, B and C are partners. C sells out his share to X. X cannot become a partner unless A and B are willing. If they will not take him as a partner (and this means forming a new partnership) then X can compel the selling of the partnership property and obtain C's share after the debts have been paid. The same thing would be true if X had inherited C's share. All partners have an equal right in the management and conduct of the firm's business. They cannot be excluded from this right and are entitled to have the business conducted according to the terms of the agreement. Ordinary differences arising in the conduct of the business can be determined by a majority of the partners. But the nature of the business cannot be changed unless all the partners agree. A partner is not entitled to interest on the money he has contributed, but he is entitled to interest on any ad-

vances made beyond the amount he agreed to put in. Thus, A agreed to subscribe $5,000. He actually advances $8,000. He is entitled to interest on the $3,000. After all debts of the partnership are paid each partner ordinarily is entitled to share in the profits according to the amount invested, and if the partnership is dissolved to have the amount contributed or any other advances he has made repaid. Thus, A, B and C put in, respectively, $2,000, $3,000 and $5,000 in a partnership. At the end of the first year, after all debts are paid, there is $12,000 on hand. The $2,000 profit will be divided as follows: $400 to A, $600 to B, and $1,000 to C. Of course, the partners may agree in writing that profits are to be divided on a different basis. Moreover, no partner can claim compensation beyond his share in the profits unless all the partners agree. But if A and B are partners and B neglects the business and as a result A is compelled to do all the work, in some jurisdictions it has been held that A may claim extra compensation for his services. If a partner makes payments and incurs liabilities personally while acting for the partnership, then the others must indemnify him for this. Each partner is an agent of the others in the conduct of the firm's business, and the partnership is bound by all contracts made by a partner within the scope of the business.

POWERS OF A PARTNER.—(1) He can purchase any goods dealt in by the firm or usually employed in such a business (but not other goods; a partnership in the hardware business would not have

any implied power to buy groceries—so if one member of such a partnership purchased, in the firm name, some groceries, the partnership would not be bound); (2) he can sell or mortgage any personal property of the firm (but he cannot sell real estate belonging to the firm); (3) he can receive payment of debts due the firm; (4) he can give receipts; (5) he can engage agents and employees for the firm; (6) he can borrow money on the firm's credit; (7) he can make, accept and indorse bills and notes in the case of a trading firm (a firm that buys or sells) but not in the case of a non-trading partnership (such as a hotel firm or a law firm). A partner cannot: (1) Assign the partnership property to any one else in trust for a creditor or even for all the creditors; (2) dispose of the firm's good will; (3) dispose of all the partnership's property at one time, unless it consists only of merchandise; (4) bind the firm by a contract of guaranty of his own or anybody else's debt (unless this is the business of the firm); (5) do any act that would make it impossible to carry on the partnership's ordinary business; (6) bind the firm by a deed. Since each partner is an agent of the others he must not make any secret profits while acting within the scope of the partnership business. As each partner is an agent of the firm for the purpose of the firm's business, his acts apparently made in the interest of the firm will bind the partnership, unless: (1) He has no authority to act; or (2) the person with whom he deals has knowledge of this lack of authority. A third person is held to know of this lack of authority

when: (1) He actually knows it; or (2) knows other facts from which an ordinarily prudent person would come to know it. The relationship of partners to third parties will also be governed by each partner's power to make contracts, etc. Each partner is liable jointly and severally with the others for all the debts of the partnership.

WHAT ARE THE RIGHTS OF CREDITORS AGAINST A PARTNERSHIP?—A partner is liable to creditors to the extent of his whole fortune. The creditor's action must be against all the partners, but if he recovers judgment he may collect the entire amount out of the individual property of one partner, and is not bound to try to collect it out of the partnership property. Of course, the partner whose property is thus taken could sue the others to make them repay him. Suppose the creditor had proceeded against the partnership property but it was insufficient to pay his claim. He could then proceed against the individual property of each of the partners to collect the balance. One partner will be liable for the whole debt if the others are insolvent. (The points of law covered in this paragraph are not uniformly established; there are some authorities holding otherwise.)

DISSOLUTION OF PARTNERSHIPS. — A partnership may be dissolved for many reasons and in many ways. The partners may agree to end the partnership. If the partnership was created for the performance of some specific act or acts it will be terminated by performance. If the partnership was to

exist for only a specified period, it will be terminated when that time expires. Any partner may retire whenever he wishes, thus ending the partnership. Of course, since a partnership is a contractual relation, a partner thus retiring will be liable for damages to the other partners if the firm was to last a specified period and he withdraws before that period has expired. The death or permanent incapacity of one of the partners will terminate a partnership. A change in the law may cause the partnership to be dissolved. After dissolution no partner can act for the partnership, except to wind up its affairs or complete previous transactions.

JOINT-STOCK COMPANIES.—A joint-stock company resembles a large partnership, in which the shares of the partners are represented by stock, just as in a corporation. It is like a partnership in that each member is liable, jointly and severally, for the full debts of the company. But unlike a partnership, the death or retirement of one shareholder will not dissolve the company. It is also different from a partnership in that a shareholder is not an agent of the company, unless properly elected or appointed to be such.

CORPORATIONS.—A corporation is a body which the law has artificially created. It has rights and duties entirely distinct from any or all of the persons who may own shares in it. There are special rules for banking, insurance and public service (street railway, etc.) corporations. Corporations are formed by complying with the laws of the State, which usu-

ally require the signing of articles of incorporation by the incorporators (these articles state the name, purposes, amount of capital stock, location of principal business office, period of duration, etc.), and the issuance of a certificate of incorporation (charter) by the secretary of state, after all taxes and fees required have been paid. A corporation has power: (1) To control the name it has adopted and a right to that name; (2) to sue and be sued; (3) to acquire, hold, use and sell such property as the purposes of the corporation (as stated in the articles of incorporation) may require; (4) to make by-laws not inconsistent with its purposes. It has numerous other rights but the above are the most important.

CORPORATION STOCK AND DIVIDENDS.—A corporation's stock is represented by certificates. These certificates are often pledged as collateral for loans. Stock is either "preferred" or "common." The preference is usually one as to dividends but may be merely as to assets on dissolution or in voting powers. Dividends are paid on preferred stock before the common stockholders receive anything. The most common way is to give the "preferred stock" the first claim upon earnings up to a certain per cent. Thus the preferred stock may state that it is entitled to receive 8% per annum before the common stock receives anything. Usually, preferred stock sells higher than the common, but if the corporation's earnings are so big that the common stock receives a higher dividend than the preferred, then the common stock will quite likely sell at a higher price. Stock may be

transferred from one person to another. A voting trust is an arrangement by which some or all of the stockholders transfer their shares to trustees, who have stock certificates made out to themselves as trustees. The trustees thus have the right to vote, while the real owners get whatever dividends are declared.

POWER TO VOTE STOCK—PROXY

Know all Men by these Presents, That I, ...

do hereby constitute and appoint John Rice, George Laight and Harry M. See, or either of them, Attorney and Agent for me, and in my name, place and stead, to attend and vote as my proxy at the (state whether annual or special meeting) meeting of the Stockholders of.....TRUST COMPANY, to be held on Thursday, August 17, 1922; and at any and all adjournments thereof, with full power and authority to act and vote for me in all respects at the said meeting and at any and all adjournments thereof, for the (here state purpose of meeting), and upon all other business which may properly be brought before the said meeting, according to the number of votes which I should be entitled to vote if then personally present.....

In Witness Whereof, I have hereunto set my hand and seal this.....day of ....., one thousand nine hundred and twenty-two.

.....[Seal]

Witness:

.....

The directors may declare dividends, if they have been earned, at their own discretion, and will not be interfered with by the courts in this respect unless they act fraudulently or oppressively. After the directors have declared a dividend the corporation owes it as a debt to the stockholder, who can sue the corporation for the amount due. The stockholder has the right to vote at the meetings of the corporation. He can usually vote by proxy if he desires. This means authorizing some one else to vote his stock for him. This document (proxy) does not have to be acknowledged before a notary public, but it should be witnessed.

MANAGEMENT OF CORPORATIONS.—The business affairs of a corporation are managed by a board of directors, not fewer than three, each of whom must be a stockholder. They are elected by the stockholders and their terms, etc., are prescribed in the articles of incorporation. They are the general agents of the corporation; they may issue and sell stock; declare dividends; appoint or elect officers to manage the business of the corporation and act as its agents; make loans; execute mortgages on the corporation's property; buy property needed; and in general perform all such duties as the by-laws and charter given by the State permit. This includes not only those specifically stated but those necessary to carry out the provisions of the by-laws and charter. The directors and officers of a corporation cannot legally engage in ultra vires acts, that is, acts beyond the scope of the corporation's charter powers. If they

FORM FOR MEETING OF DIRECTORS FOR ORGANIZATION OF NEW BOARD

(City or town).....(date)

A meeting of the newly-elected Directors of the .....Bank of ..... was called to order by the Cashier immediately after adjournment of the annual meeting of the stockholders, it appearing that

Messrs. .....

.....

.....

.....

had taken the prescribed oaths of director, and were present at this meeting.

On motion, duly seconded, Mr..... was elected President at a salary of $..... per annum.

On motion, duly seconded, Mr..... was elected Vice-President at a salary of $..... per annum.

On motion, duly seconded, it was

RESOLVED, that the Directors be paid $..... for each attendance at Board Meetings and $..... each for services on committees.

(Here record any other business that transpired.)

There being no further business, the meeting on motion adjourned.

exceed, or attempt to exceed, these powers, the stockholders or creditors may apply for an injunction to restrain them. This would be so, even if the majority of the stockholders consented to the violation, for a minority may always insist that the limits of the charter powers be observed. If neither of the parties to an ultra vires contract has started to perform his part the courts will not compel him to do so. In most courts it has been held that if either party to an ultra vires contract has done his part the other party will be compelled to perform. If both parties have performed the courts will let the matter remain as they find it. The directors are bound to exercise reasonable care in the conduct of the corporation's affairs, and are liable for negligence, dishonesty, or breach of trust (for they are in a position of trust in their relation to the stockholders).

CORPORATION STOCKHOLDERS.—Unlike partnerships and joint-stock companies, the members of a corporation (its stockholders) are not liable individually for the debts of the firm; but they are liable to the corporation for any unpaid part of their subscriptions. Thus, A agrees to buy ten $100 shares, but pays only $400. The corporation can compel him to pay the other $600. Or the creditors might compel him to pay the $600, for it is a sort of fraud on the creditors to advertise capital stock of $100 a share, presumably paid in cash or in property of equivalent value, and then to find that only $40 a share has been paid. Statutes may make stockholders liable for an additional amount, over and above the face value of

their stock. A, above, might, if the statutes so provided, have to pay another $100 on each share of stock, if the corporation property is not sufficient to

FORM OF MINUTES FOR DIRECTORS' MEETING

FORM OF MINUTES FOR DIRECTORS MEETING

(City or town)....., (date).....

The regular meeting of the Board of Directors of the ..... Bank of..... .....was held at their banking house at.....o'clock.....(date) with the following members present, viz.:

Messrs. .....

.....

.....

Minutes of meeting of.....were read and on motion approved.

A statement of the bank at the close of business .....was submitted to the directors.

All loans and discounts from.....(date) to.....(date) inclusive, were read to the directors (or were submitted to the directors) and on motion duly seconded were approved.

(Here record any other business that transpired.)

No further business being presented, the meeting on motion adjourned.

pay the debts of the corporation. This is usually the case in a bank and is known as the "stockholder's double liability."

HOW CORPORATIONS ARE DISSOLVED.—A corporation is dissolved by the expiration of the time for which it was chartered. It may be dissolved by a decree of the court for various causes, including the following: Non-use of its franchise; misuse of its franchise; failure to perform some duty it should have done before it received its charter, such as a failure to file its articles of incorporation; non-performance of some subsequent duty, such as rendering reports to the secretary of state when required; violation of some law, such as the anti-trust law; failure to pay taxes; or insolvency. When a corporation becomes insolvent the court may, if the directors, bondholders or general creditors request it, appoint a receiver, who is an officer of the court, and who takes entire charge of the corporation's property and business until it can be dissolved or reorganized. After all the debts and claims have been paid, if any assets remain they are divided among the stockholders in proportion to the amount of stock they own.

BILLS OF SALE.—A bill of sale is a paper which conveys an interest or right in personal property from one party to another. No special form is

SHORT FORM OF BILL OF SALE

Minneapolis, Minn., June 14, 1922.

I have this day sold to James Allen, one Ford automobile, one Indian motorcycle, and one Winton automobile.

GEORGE STEWART.

necessary; the only thing necessary is to show that one party has intended to transfer his property to the other party. The last form is very brief, but answers every purpose and is binding. The usual (but more formal) form of a bill of sale is as follows:

ORDINARY FORM OF BILL OF SALE

Know all Men by these Presents, That I, George Stewart of Minneapolis, County of Hennepin and State of Minnesota, in consideration of Three Thousand Dollars, to me paid by James Allen, of the same place, have bargained and sold to James Allen, the following goods and chattels, to wit: one Ford automobile, one Indian motorcycle, and one Winton automobile.

In Witness Whereof, I have hereunto set my hand and seal, this 14th day of June, A. D. 1922.

Signed, sealed
and delivered
in presence of

.....[Seal]

.....

LEASES.—A lease is a contract giving the possession of real estate to one party, but keeping the ownership in the original owner. It is really a contract whereby one party becomes the tenant and the other the landlord. Thus, A wishes a certain lot of ground for a factory site, but does not wish to buy it. So he goes to the owner, B, and they agree that for

a rent of $5,000 a year A shall have the use of the land for ten years — this contract is called a lease; the owner is called the landlord or "lessor," while the person holding the land is the tenant or "lessee." The consideration in such a contract is known as rent, and the valuable right to use the property is called the "leasehold." No particular form is required to create a lease, which may be oral or written. The agreement may be either expressly stated or implied from the conduct of the parties. The English Statute of Frauds applies generally to the creation of all leases for a longer time than three years, requiring that they be in writing, while in the United States different periods are prescribed, by statute in the various States, beyond which an oral lease is unenforceable. A seal is not essential to the validity of a written lease, even if the lease is required to be in writing. Unless it is specifically stated otherwise, either the landlord or tenant may assign his interest in the lease without the consent of the other. The tenant may sublet to a new tenant; thus, A rents a farm from B, and rents it to C for a period of years less than the lease runs. A's lease is for ten years. If he assigns the lease to C, the latter gets the farm for the entire period (or unexpired part). A would still be liable for the rent and any other agreements he may have made with the landlord. If he had rented the farm for seven years to C (less than the full term, or less than the unexpired portion) he would be subletting his lease. A lease may be terminated by: (1) Mutual agreement; (2) some other act of both

parties; (3) default or breach of either party; (4) its terms (such as the expiration of the term or the occurrence of a stipulated event); (5) destruction of the subject-matter; (6) operation of law; (7) proof that the lease was induced by mistake, fraud or duress (it is not void, but only voidable in such a case); (8) the eviction of either party by a superior title (thus, if A rented property to B that belonged to C, the lease would be terminated when C proved his title).

MORTGAGES.—A mortgage may be defined as an estate created by a conveyance, absolute in form, but intended to secure the performance of some act, such as the payment of money or the like, by the grantor or some other person, and to become void if the act is performed agreeably to the terms prescribed at the time of making such conveyance. Thus, A borrows $5,000 from B, giving B his promissory note. For B's security he also gives B a mortgage on a piece of property he (A) owns.. This mortgage states that if A does not pay the promissory note, then, after fulfilling certain formalities, B can possess himself of the property which is described in the mortgage. Certain property is secured to the lender in case the borrower fails to pay. The mortgage must be signed, sealed, witnessed, acknowledged (statement by the proper officer, such as a justice of the peace, notary public, or other officer empowered to take acknowledgments that the maker has appeared before him and acknowledged the instrument to be his wilful and intended act, or words to that effect, the exact language used differing in the various

States), delivered by the borrower (the "mortgagor") to the lender (the "mortgagee"), and accepted by the lender. It should also be recorded (that is, placed on record in what is called the Registry of Deeds Office at the county seat) in order to prevent a dishonest borrower from giving another mortgage on the same property, which might be recorded prior to the first one given and thus have superior rights. No particular form is required for the defeasance (a condition relating to a deed or other instrument on the performance of which the instrument is to be defeated or rendered void) clause. Any deed which shows by its form that it was issued to secure the payment of a debt will be held to be a mortgage, and, in some jurisdictions, oral testimony will be admitted to show that deeds are not absolute conveyances but merely intended to secure the payment of money. Thus, in some States, the defeasance clause could be proved to exist by oral evidence, even though the rest of the deed is in writing. In some States the lender's interest can be transferred by assignment; in other States his interest can be transferred only by deed. Second and other subsequent mortgages may be placed on the same piece of property. Suppose A issues a mortgage to B and then another to C on the same piece of land. He fails to pay C, who may foreclose (take steps to have the property sold to pay the debt due him). But B's claim would have to be satisfied first. If a borrower is married both he and his wife must sign the mortgage. Mortgages are often given to banks to secure loans made. There is a clause in-

serted in some mortgages which gives the lender the right to sell the property securing the debt, if the debt is not paid when due. This saves the lender the trouble of court proceedings to prove his right to sell.

DEEDS.—A deed is a document used to transfer the title of real estate from one person (the "grantor") to another (the "grantee"). The essentials of a deed have already been mentioned. They are the signature and seal of the person giving the deed; its delivery to the grantee (the person to whom the deed is given); its acceptance by the grantee. The deed does not have to be dated, and unless required by statute it does not have to be witnessed (signed by a disinterested person who saw it executed). However, since many States require by statute that a deed be witnessed, it is a safe procedure to have it done. As between the parties themselves acknowledgment is not necessary; but it is usually required by statute before the deed may be recorded. The wife of a married man must sign the deed. In a "quit-claim" deed the person giving it does not hold himself responsible for any defects in the title of the property; that is, he only transfers the rights he has in it himself. In a "warranty" deed the person giving the deed guarantees that there are no defects in the title to the property, and should any defect later be discovered the acceptor of the deed can recover from the grantor. If there is a mortgage on the land when the deed is made the purchaser is bound to recognize the mortgage as a valid charge against the land. That is, A gives a mortgage on a piece of land worth $5,000 to

B, to secure a $2,000 debt. A then sells the land to C. A fails to pay his debt to B, who forecloses. The property is sold for $5,000, and C would be entitled to the $3,000 remaining after B's claim is satisfied. If C sold the property to D, D would then occupy the position of C.

GUARANTY AND SURETYSHIP.—A contract of suretyship is an agreement in which one person agrees to answer for the debt, default, or miscarriage of another. A contract of guaranty is a promise to pay such debt, etc., if the party first liable to pay or perform fails to do so. Under a contract of guaranty the guarantee (the person to whom it is given) must try to get the principal to pay or perform and use reasonable diligence to get him to do so; in a contract of suretyship the surety (the person making the contract) is liable absolutely if the principal does not pay or perform, and the creditor does not have to make any demand of the principal, but can at once proceed against the surety. But in many of their features both guaranty and suretyship contracts are alike. The offer to become a surety or guarantor must be accepted; acting on the offer is usually considered a sufficient acceptance. It must be in writing. In general, all the elements required in other contracts must be present. No particular form is required. The person to whom the contract is given must disclose all material facts within his knowledge that might affect the risk that is taken by the guarantor or surety. If the principal defaults no notice need be given to a surety to render him liable; but a guarantor must be

given notice: (1) When the contract states that it is to be given; (2) when the surety would be damaged if not given notice; (3) if the amount for which the surety is bound is indefinite; (4) if the guaranty is conditional. If the guarantor or surety pays the debt he has a right to any claims the creditor may have; thus, if the creditor had the principal's promissory note or a mortgage he would be required to deliver such instrument to the person who has paid the debt. This is termed the right of subrogation. If there are two or more joint guarantors or sureties and one pays the entire debt he can make the others pay their share. This is the right of contribution. He who pays the debt is entitled to reimbursement.

FIDELITY BONDS.—Persons holding positions of trust or responsibility are frequently required to give a bond (usually executed by a person or persons financially responsible or by a company making a business of fidelity insurance). A bond of this kind is a contract whereby the insurer, for a valuable consideration, agrees, subject to certain conditions, to indemnify the insured (the employer) against loss consequent upon the dishonesty or default of a designated employee. A person with good habits and good record can usually obtain, without much difficulty, from a surety company, a bond of five or ten thousand dollars by the payment of a small annual sum.

INSURANCE POLICIES.—Insurance is a system of distributing the losses of a few persons among a large number of persons. Thus, 5,000 persons might take out insurance policies, each paying $100 a year,

making a total income of $500,000. If 100 persons die (assuming it is life insurance) and each has a policy of $5,000, the $500,000 will be consumed, and the loss of 100 have been distributed among 50 times that number. Actually, of course, the insurance company will have something left, if its risk tables have been carefully prepared, and if no extraordinary disaster, such as a severe earthquake or famine, has occurred. Almost every conceivable risk may be insured: Life, marine, fire—these are the more common; but there are companies that insure against tornadoes, steam-boiler explosions, plate glass, burglaries, injuries, automobile theft or lawsuits, defaults or embezzlements, etc. The insurance policy is a contract, and the premium paid is the consideration. Lawful contracts of insurance cannot be made unless the person paying the premium has an insurable interest in the person or thing insured; thus, a baseball club may insure the lives of its players, but probably, would not be allowed to insure the life of an opera singer. The foregoing kinds of insurance are subdivided into many classes; for instance, life insurance may be endowment, straight life, or term. Insurance policies having a "surrender value" may be pledged, and such assignment duly recorded on the books of the insurance company, as collateral for a loan, if they are properly assigned to the lender. By "surrender value" is meant the sum the company agrees to pay to the holder of the policy when he surrenders it. The sum that will be paid is based on the policy reverse and is less than amount paid as premiums.

CHAPTER XI

Bank Statements

PURPOSE OF STUDY.—This chapter and those which follow are offered with the idea of presenting to the beginning student a simple, practical study of the basic principles of bank bookkeeping. Their purpose is to impress upon the pupil's mind the methods and practices of bookkeeping as well as the duties, technical knowledge and vocabulary of the bookkeeper. The items which follow are briefly explained not for their abstract value, but in the belief that the elementary student, with a more or less limited experience in the banking business, could not understand what follows without some knowledge of the underlying facts of bank statements.

WHAT IS BANK BOOKKEEPING?—Bank bookkeeping is a process of recording and classifying the transactions of a bank. It should not be confused with the law of banking, nor with bank statistics, bank arithmetic or auditing; further, a presentation of bank bookkeeping in principle is not a discussion of bank operation. The field is restricted so as to exclude mechanical processes, varieties of forms, bank operation, bank organization, and the division of work among employees.

THE PURPOSES OF BANK BOOKKEEPING.—The purposes of bank bookkeeping are numerous, but the main ones are:

(a) To record transactions as they occur.

(b) To classify transactions by kind.

(c) To show profits and losses made.

(d) To reflect the financial condition of the bank.

(e) To afford figures for comparative periods.

BOOKKEEPING RECORDS.—The bookkeeping records of a bank fall into two main divisions: (1) those of original entry and (2) those of final entry. Books and records of original entry are those such as loan and discount registers, bond registers, journals, debit and credit tickets, and the like. In such records transactions are usually entered as they arise. In books of final entry such as the depositors' ledger, the general ledger, the bond ledger, and the loan ledger, transactions are classified into accounts by name or according to their kinds.

AN ACCOUNT DEFINED.—An account is such an arrangement of increase and decrease figures of an item of loss, of gain, or of property, or of a debt, as will show at any time the balance thereof. Each account has two sides, a left or debit side, and a right or credit side. The following are illustrations of "cash" and "liberty bonds" accounts:

CASH		LIBERTY BONDS	
Debit	Credit	Debit	Credit
$400	$200	$6,000	$3,000

THE TRIAL BALANCE.—A trial balance is a statement in summary form of the debit and credit balances of the accounts on the general ledger. The following items in the trial balance of the Institute National Bank may be found in most commercial bank trial balances:

TRIAL BALANCE OF THE GENERAL LEDGER OF THE INSTITUTE NATIONAL BANK AS OF THE CLOSE OF BUSINESS, JUNE 30, 1922

Debit Balances

1.	Loans	$1,925,000
2.	Bills Discounted	950,000
3.	Past Due Paper	10,000
4.	U. S. Government Securities	200,000
5.	U. S. Government Securities Deposited to Secure Circulation	200,000
6.	U. S. Government Securities Pledged to Secure Postal Savings Deposits	90,000
7.	Securities Other than U. S. Bonds	125,000
8.	Other Bonds Pledged to Secure U. S. Deposits	10,000
9.	Federal Reserve Bank Stock	15,000
10.	Reserve at Federal Reserve Bank	300,000
11.	Cash	75,000
12.	Checks on Clearing House Banks	24,000
13.	Checks on Non-Member Clearing House Banks	14,000
14.	Cash Items	2,000
15.	National Bank Notes on Hand	10,000

16.	Accounts Receivable	500
17.	Internal Revenue Stamps	500
18.	Due from Tenth National Bank, New York	50,000
19.	Five Per Cent Redemption Fund	10,000
20.	Due from Federal Reserve Bank-Collection Account	75,000
21.	Due from Other Banks-Collection Account	50,000
22.	Expense	5,000
23.	Interest Paid on Deposits	6,000
24.	Banking House and Lot	50,000
		$4,197,000

Credit Balances

25.	Capital Stock	$ 250,000
26.	Surplus	250,000
27.	Undivided Profits	10,600
28.	Domestic Exchange	500
29.	Commissions Collected	1,000
30.	Interest on Loans	19,000
31.	Discount	6,000
32.	Interest on Investments	3,000
33.	Bond Profits	500
34.	Reserve for Taxes	12,600
35.	Reserve for Depreciation on Building	3,000
36.	Circulating Notes Outstanding	200,000
37.	Due to Depositors (including banks)	2,812,300
38.	Certified Checks Outstanding	10,000
39.	Cashier's Checks Outstanding	12,000

40.	Demand Certificates of Deposit	3,000
41.	Dividends Payable	8,000
42.	Time Certificates of Deposit	5,000
43.	Time Deposits	500,000
44.	Postal Savings Deposits	90,000
45.	Overs and Shorts	500
		$4,197,000

The above is not a complete list. Special items which appear on the books of many banks are dealt with in a subsequent chapter. A savings bank statement, especially if it is a mutual savings bank, would show an entirely different condition. Assets would be principally of two kinds, bonds and similar investments, and first mortgage real estate loans. There would not be a great deal of cash on hand nor would there be much on deposit in other banks. The liabilities would be practically all to depositors with the exception of a reserve or surplus fund which would belong to the depositors pro rata if the bank were to be liquidated.

DEBITS AND CREDITS.—The first principle in bank accounting, as in all other bookkeeping, is that for every debit there must be a credit and vice versa. In accordance with this fundamental theory the books must always be in balance. As we have seen with respect to the trial balance, every dollar of liabilities is accounted for by another dollar of resources. This is true of the accounts of every bank.

DEBIT DEFINED.—A debit is an amount entered, or to be entered, on the left side of an account because:

1. Something came into or became due the bank, or
2. An obligation of the bank was reduced, or
3. The bank incurred an expense or a loss, or reduced a profit.

CREDIT DEFINED.—A credit is an amount entered on the right side of an account because:

1. An item is disposed of, or
2. An obligation is incurred by the bank, or
3. A profit is made or a loss reduced.

Mere transfers of figures from one account to another, which is analogous to taking from one pocket and putting into another are not considered in these definitions.

DEBIT BALANCES CLASSIFIED.—By balance is meant the difference between the left and right side figures of an account. Debit balances, that is, excess left-side figures, are of two kinds:

1. Thoe representing losses of expenses incurred such as salaries, interest paid, and the like. These are classified as losses. (Losses as here used are not confined to out and out losses on account of bad debts and the like.)
2. Those representing property acquired, or

debts owing to the bank such as cash, bonds, loans and discounts. These are called assets or resources.

CREDIT BALANCES CLASSIFIED.—Credit balances, or accounts with excess right-side figures are also of two main classes:

1. Those showing gains or earnings, such as commissions or interest earned. These are classified generally as profits, earnings, or gains.
2. Those representing obligations of the bank, such as circulating notes, deposits, and in a sense capital stock. These are called liabilities.

CONTROL AND AUXILIARY ACCOUNTS.—A control account is an account which controls others called auxiliary or subsidiary accounts. The important feature of this control is that the controlling account varies in balance as does the sum of the balances of the auxiliary or supporting accounts; that is, figures affecting the control affect the auxiliary accounts similarly. A depositors' account on the general ledger controls the individual depositors' accounts on the depositors' ledger. At the close of each day the total credit balances shown by the depositors' ledger or ledgers, less the overdrafts or debit balances, equals the balance of the depositors' control account on the general ledger. Practically all general ledger accounts are control accounts.

THE TRIAL BALANCE EXPLAINED.—The trial balance of a ledger is an arrangement in columnar form of the debit and credit balances of all accounts so as to show the grand total of each group. The trial balance shows whether the ledger is in balance. The total of debits should equal the total of credits, but as will be seen that does not insure that posting has been correctly done. By posting is meant copying debit or credit figures from original entry records into the records of final entry where transactions, it will be remembered, are classified into accounts. Posting incorrectly would be for example, placing a debit or a credit into the wrong account.

DEBIT BALANCES.—In the following pages the accounts will be briefly explained without much reference to the bookkeeping involved, the aim being to set forth their character in as simple and direct a manner as possible. In another chapter the bookkeeping in this connection will be explained.

LOANS (1).—In most banks there are at least two large divisions of loans, that is, demand and time loans. Demand loans are those payable on demand or call, and time loans are those having a definite maturity date. Loans are always evidenced by notes, or promises on the part of the borrower to repay the bank for credit given. Loans are assets of the bank. Each new loan increases this asset, and every payment of a loan decreases it. These items will be shown in entry form in a subsequent chapter.

BILLS DISCOUNTED (2).—This item likewise is an asset of the bank, and represents the total

of notes which the bank has at any time under discount. The bank has either extended credit, or paid out funds for these notes. When new discounts are made this asset called "bills discounted" increases. When the discounted notes are paid the account decreases.

PAST DUE PAPER (3).—Sometimes for one reason or another notes are not paid on their maturity dates. This may be because funds remitted for them are not received in time. The result is overdue or "past due paper." This account, therefore, should show at all times the amount of overdue but good loans and discounts which the bank is carrying. The student should not be confused by such loans as have become worthless; these are handled through profit and loss, or through a contingency reserve account, as will be explained. Past due paper should be regarded as an asset of the bank like the two foregoing items. An increase in such paper causes an increase in the account. Conversely, a payment of such paper causes a decrease.

U. S. GOVERNMENT SECURITIES (4).—This is an asset account representing investments in all forms of United States securities, including liberty bonds and certificates of indebtedness. As implied by the title, these are securities which are owned outright and which have not been pledged or deposited as security for any purpose whatsoever. As additional investments or purchases are made, the balance of this account increases. Sales of the securities, or other disposition, cause decreases in the account.

U. S. GOVERNMENT SECURITIES DEPOSITED TO SECURE CIRCULATION (5).—This item of assets represents a portion of the bank's U. S. bonds which have been sent to the United States Treasurer as security for an equal amount of circulating notes which the bank has received from Washington, and which are outstanding as shown by the item "circulating notes outstanding" among the credit balances. The deposit of these securities makes doubly sure the redemption on demand of the circulating notes.

U. S. GOVERNMENT SECURITIES PLEDGED TO SECURE POSTAL SAVINGS DEPOSITS (6).—This is an asset of the bank representing securities pledged by the bank under the law for postal savings deposits left with the bank.

SECURITIES OTHER THAN U. S. BONDS (7).—This account shows the total of all other investments of the bank; that is, other than United States securities. In it would be included such items as railroad and industrial bonds, and the issues of foreign governments. Like account No. 5 the balance of this item increases as new investments are made, and is decreased by sales.

OTHER BONDS PLEDGED TO SECURE U. S. DEPOSITS (8).—These are assets of the bank, but assets representing bonds pledged to secure funds of the United States Government on deposit with the bank. The phrase "other bonds" means bonds other than those of the United States Government.

FEDERAL RESERVE BANK STOCK (9).—All banks which are members of the Federal Reserve System are obliged to subscribe to the extent of 6% of their capital and surplus in stock of the Federal Reserve bank of their district. Only 50% of this subscription has been called by the Federal Reserve Board. This obviously is an asset item, an item owned by the bank.

RESERVE AT FEDERAL RESERVE BANK (10).—This figure represents the legal reserve deposited with the Federal Reserve bank of the home district. The amount required by law depends upon the group in which the member bank is located. The percentage has also varied for each of the groups from time to time. (In the trial balance, it is assumed that the bank in question is located in a reserve city.) Of course, banks not members of the Federal Reserve System are not concerned with this account.

CASH (11).—Cash is the bank's most liquid asset, and its figures show as at the close of each day the amount of currency, coin, and gold held in the bank's vaults. Incoming cash, of course, increases this figure; all shipments and payments of cash decrease it.

CHECKS ON CLEARING HOUSE BANKS (12).—These are items which have been cashed or for which credit has been given to depositors but which cannot be sent through the clearings until the following day.

CHECKS ON NON-MEMBER CLEARING-HOUSE BANKS (13).—These are similar to the

foregoing (12) but are drawn on non-member clearing-house banks. They are usually collected on the following day by messengers of the bank.

CASH ITEMS (14).—This is an asset account. Some checks which have been cashed or for which credit has been given may be found to be irregular so that they cannot be collected on the day received; such are items with missing indorsements, insufficient fund items and those on which figures disagree with wording. These may be carried in cash items unless they are obviously worthless. Other common cash items are those such as expense tickets for which cash has been paid out but which have not as yet been charged to the expense account, and bond coupons for which credit has been given and which are due and collectible. These should not really be carried in cash items; they should be charged off promptly. It is desirable that cash items be turned over each day; that is, that no item remain uncollected more than one day in cash items.

NATIONAL BANK NOTES ON HAND (15).—As implied by its title, this item represents the amount of this bank's notes on hand and unissued. The amount of National bank notes outstanding at any time would be the difference between the balance of this account and of the account "circulating notes outstanding" in the credit balance group. Banks operating under State law would, of course, have no need for such accounts on their ledgers, because State banks are taxed so high that it would be unprofitable for them to issue notes.

ACCOUNTS RECEIVABLE (16).—From day to day for any one of a number of reasons most banks pay out funds for their customers which the latter may not wish charged to their accounts. Such are outlays for registered and insured mail, cables, telegrams, and express charges. Having paid out its own funds for such items, the bank must have some place to keep the offsetting charge, or debit, and "accounts receivable" is used for that purpose. When a customer remits for the outlay made for his account, the balance shown is accordingly decreased.

INTERNAL REVENUE STAMPS (17).—Banks find it convenient to carry a small supply of various denominations of revenue stamps which are used largely on time commercial paper. Customers frequently omit putting these stamps on their bills which makes it necessary for the bank to do so. Additional supplies of stamps purchased by the bank cause increases to the balance of the account. All stamps used cause decreases. The item obviously represents an asset as it is almost the equivalent of cash.

DUE FROM TENTH NATIONAL BANK, NEW YORK (18).—This is an asset account representing funds on deposit with a New York correspondent. The balance of this account is increased by remittances of commercial paper and currency, and it is decreased by all drawings made against it.

FIVE PER CENT REDEMPTION FUND (19).—A deposit of 5% of the amount of circulating notes outstanding is required by the Treasurer of the United States Government. The fund is used to re-

deem the circulating notes of the bank, usually mutilated, which are shipped from time to time to the Treasurer for redemption. The redemption or payment of these notes causes a reduction of the bank's balance with the Treasurer, who calls for additional funds so as to bring the total up to 5% of the circulating notes. Upon compliance he sends notes to replace those which have been paid and destroyed. The five per cent redemption fund is clearly an asset of the bank.

DUE FROM FEDERAL RESERVE BANK—COLLECTION ACCOUNT (20).—This is an asset account of the bank, representing for the most part checks drawn on out-of-town banks for which we have given our depositors credit, and which we are collecting through the Federal Reserve System. When the items are sent out this account is charged. As will be explained in more detail, on the automatic maturity date this account is credited, or reduced, and the reserve at the Federal Reserve bank is increased accordingly, provided it has not been reduced through other transactions.

DUE FROM OTHER BANKS — COLLECTION ACCOUNT (21).—Like account No. 20, this account represents checks on out-of-town banks in the process of collection, but the items handled through it are those which are collected outside of the Federal Reserve System, or through the bank's own correspondents. That is the only major distinction.

EXPENSE (22).—Expense is a general term

covering outlays for operating and administrative cost such as:

Advertising	Postage
Carfare	Salaries
Commercial Agency Service	Stationery and Books
Directors' Fees	Supplies
Donations	Taxes
Depreciation on Building	Telephone Service
Furniture and Fixtures	

This account called "expense" is the first debit balance item thus far discussed which is not an asset. The distinction should be carefully noted. It will be remembered that debit balances were classified into either assets (or resources) and expenses (or losses). It would be entirely in order to set up separate accounts for each of the items mentioned in the list above, especially for depreciation, furniture and fixtures, and taxes, but they are ordinarily carried on auxiliary records controlled by the major caption "expense." This makes fewer general ledger accounts. Furniture and fixtures is regarded by many banks as an asset, but as banks should carry no assets which would not yield at least their book value, the better practice perhaps is to consider any outlay for furniture and fixtures an expense.

INTEREST PAID ON DEPOSITS (23).—This is another account of the expense, or loss group, and the student is again advised to note the distinction between this and the items of an asset character such as cash, bonds, loans, etc. The expense or loss

items cause decreases in the earnings of the bank. The asset items do not in themselves affect the earnings and the fact that interest is earned on assets should not be allowed to confuse the student.

BANKING HOUSE AND LOT (24).—It is obvious that this is an asset representing the value of the bank's premises.

CREDIT BALANCES.—The following is an explanation of the credit items shown in the foregoing trial balance:

CAPITAL STOCK (25).—This item, known as a capital liability, represents the par value of the bank's outstanding capital stock. While this is in a sense a liability of the bank to the stockholders, it is indicative also of a liability on the part of stockholders to the bank, they usually being doubly liable under liquidation proceedings. That is to say, they may lose not only the funds that they invested, but also an amount equal to the par value of the outstanding capital stock of the bank. This is true under many State laws as well as under National bank laws.

SURPLUS (26).—Surplus is a capital liability of the bank, being for the most part accumulated earnings for very unusual contingencies. The surplus is not entirely accumulated through earnings because most banks organize with a paid-in surplus before they do any business. National banks are in effect required to have a surplus of 20% before they may open their doors for business. The obvious reason for this is that otherwise there might be an impairment of capital and it is believed that an application

for a charter for a National bank which does not provide a surplus fund of at least 20% of the capital stock probably would not be looked upon with favor by the Comptroller of the Currency.

UNDIVIDED PROFITS (27).—Another capital liability is undivided profits which shows the more recently accumulated earnings of the bank. Periodically, usually on June 30 and December 31, banks close out their profits and losses, carrying the excess profit or loss to the undivided profits account. Additions to surplus are made for the most part from undivided profits, and dividends are declared therefrom.

DOMESTIC EXCHANGE (28).—This is distinctly different from the credit balances previously explained. It is a gain, or profit item, and not a liability. It represents the excess of exchange charges which the bank has made on the collection of out-of-town items as against the amount paid by it for the same service. Periodically the balance of this item goes through a clearing account called "profit and loss" to the undivided profits account. The latter is thus increased, and the balance of the domestic exchange account becomes zero. That is what is meant by closing a profit or a loss account.

COMMISSIONS COLLECTED (29).—It will be remembered that credit balances are either liabilities or earnings. The balance of this account is an accumulated earning, namely the sum of miscellaneous commissions which have been collected since the last date of closing. Commissions entered in this account would be those such as service charges made by

the bank for securities sold for customers, and commission for checks drawn on city bank correspondents sold to customers.

INTEREST ON LOANS (30).—This is another earning account, showing the interest earnings on loans made by the bank since the account was last closed out.

DISCOUNT (31). — Discount is an earning, gain, or profit account, and not a liability. It shows the amount of discount collected on notes which the bank has discounted. Discount, it should be remembered, is interest collected in advance, or at the time an extension of credit is made, rather than at the maturity date of an obligation.

INTEREST ON INVESTMENTS (32). — This is obviously an earning account. To this account is credited the proceeds of all coupons and all other interest earned on the bank's investments. As with other earning accounts, its balance is periodically transferred through profit and loss to the undivided profits account. The profit and loss account is used merely for closing or clearing purposes so as to show at the end of each six months, or other earning period, the net profit or loss. Illustrations of the closing process appear in a subsequent chapter.

BOND PROFITS (33).—This is an earning account showing the profits made in bond purchases and sales aside from interest. In order that profit may be made, one must, of course, sell at a higher rate than he buys.

RESERVE FOR TAXES (34).—As the title

indicates, this item is an amount reserved for the payment of taxes. This is in keeping with the sound policy of providing in advance for an expenditure which it is known will be made eventually.

RESERVE FOR DEPRECIATION ON BUILDING (35).—This item represents the offset to expense charges for depreciation on building. As in the case of the tax reserve the establishment of this reserve means that undivided profits is less by just the amount of this reserve. Information as to book-keeping with respect to this reserve is given in another chapter.

CIRCULATING NOTES OUTSTANDING (36).—This was explained in connection with items Nos. 5, 15 and 19 among the debits. It represents in reality the total of the bank's notes carried in the vaults, and those outstanding. The distinct difference between this account and the earning accounts previously explained should here be noted. This account is not in any sense affected by the periodic closing of profit and loss accounts for it has nothing to do with them, nor should there be any confusion arising from the small interest earning on bonds which are pledged in Washington as collateral for these notes. That is another matter.

DUE TO DEPOSITORS (37).—This is a liability account representing the amount due on demand to the depositors of the bank, including (a) banks and bankers, and (b) individuals, firms and corporations. Deposits increase the figure; checks drawn by depositors against the bank decrease it.

CERTIFIED CHECKS OUTSTANDING (38).—This is a liability account which shows the amount of customers' checks certified by the bank and outstanding. By certifying a check a bank gives notice that it has funds to pay the check on presentation. Certifying a check at request of the holder makes it no longer the obligation of the customer who drew, but in fact the obligation of the bank instead.

CASHIER'S CHECKS OUTSTANDING (39).—This is a liability account. Obviously it has nothing directly to do with profit and loss and represents as at the close of each day the amount of outstanding checks issued by the bank largely in payment of its own obligations.

DEMAND CERTIFICATES OF DEPOSIT (40).—This shows the liability of the bank on account of certificates of deposit which are issued payable on demand and under thirty days. New certificates issued increase the balance. Payments by the bank against certificates decrease it.

DIVIDENDS PAYABLE (41).—Dividends payable is a liability account showing the amount of dividends declared and not yet paid. Each dividend paid reduces the amount of the balance.

TIME CERTIFICATES OF DEPOSIT (42).—This item is similar to item 40, excepting that time certificates have definite maturity dates of thirty days and over.

TIME DEPOSITS—(43).—By Federal Reserve regulations those deposits which require thirty days or more notice before payment are classified as time

deposits. Their volume varies greatly among banks; for the most part they are low in city banks and proportionately high in country banks.

POSTAL SAVINGS DEPOSITS (44).—This account shows the liability of the bank to the United States Government through the trustees of the Postal Savings System. It will be remembered that the bank is required to deposit collateral as security for these deposits. Reference should be made to item No. 6 among the debits in the trial balance which has already been shown.

OVERS AND SHORTS (45).—This account is of a mixed character, either a deficiency of debit balances called a short, or a deficiency in credits called an over. The appearance of the overs and shorts account among the liabilities here implies an excess credit balance signifying that the overs have exceeded the shorts. Good bookkeeping requires that a detailed supporting record be kept of all overs and shorts which may arise so that when the differences are found liquidating entries may be made properly. On the other hand, with good bookkeeping, differences should seldom arise.

Profit and Loss

PROFIT AND LOSS STATEMENT. — The profit and loss statement may be defined as an arrangement of the profits or earnings made and of the losses and expenses incurred during a given period as shown by the profit and loss accounts, the major purpose being to show the net gain or loss for the period.

The following may be regarded as a typical statement. The items appearing in it are taken from the trial balance, which has already been explained. It should be noted that asset and liability accounts are not taken into consideration. The numbers to the right of the items are the same as those appearing in the trial balance.

STATEMENT OF EARNINGS AND EXPENSES OF THE INSTITUTE NATIONAL BANK FOR THE SIX MONTHS ENDING JUNE 30, 1922

Undividied profits at the close of Dec. 31, 1921		$10,600.00
Earnings:		
Domestic Exchange (28)	$500.00	
Commissions Collected (29)	1,000.00	
Interest on Loans (30)	19,000.00	
Discount (31)	6,000.00	
Interest on Investments (32)	3,000.00	
Bond Profits (33)	500.00	
Gross Earnings		$30,000.00
Deduct:		
Expense (22) (This expense item might be separated into its constituent elements, such as salaries, taxes, etc.)	5,000.00	
Interest Paid on Deposits (23)	6,000.00	11,000.00
Net Earnings (which will be the net increase to undivided profits)		19,000.00
Undivided Profits at the close of June 30, 1922		$29,600.00

THE CLOSING OF ACCOUNTS.—By "clos-

ing the accounts" is meant the periodic transfer of losses and gains to the "profit and loss" or "undivided profits" account of the bank. All losses and expenses cause decreases, and all gains or earnings cause increases in undivided profits.

THE CLOSING OF EARNING ACCOUNTS.—The best practice is to set up a profit and loss account for this purpose to which the earnings and expense items are first closed or transferred. The balance of the profit and loss account is in turn transferred to the undivided profits account of the bank. The profit and loss account, therefore, never retains a balance. The following entries illustrate the closing process:

Debit: Domestic Exchange (28)	$ 500	
Credit: Profit & Loss		$ 500
Debit: Commissions Collected (29)	1,000	
Credit: Profit & Loss		1,000
Debit: Interest on Loans (30)	19,000	
Credit: Profit & Loss		19,000
Debit: Discount (31)	6,000	
Credit: Profit & Loss		6,000
Debit: Interest on Investments (32)	3,000	
Credit: Profit & Loss		3,000
Debit: Bond Profits (33)	500	
Credit: Profit & Loss		500

The above entries, it will be observed, close out the balances of all the profit accounts. They were debited for the exact amounts of their credit balances. This will be illustrated with domestic exchange. The ac-

count stood like this before the closing entry was made:

DOMESTIC EXCHANGE

Debit	Credit
	$500

After the closing entry is made is appears in this form:

DOMESTIC EXCHANGE

Debit	Credit
$500	$500

THE CLOSING OF THE EXPENSE OR LOSS ACCOUNTS.—The entries required to close out these items are as follows:

Debit: Profit & Loss	$5,000	
Credit: Expense (22)		$5,000
Debit: Profit & Loss.....	6,000	
Credit: Interest Paid on Deposits (23)		6,000

It should be noted that as the loss accounts have debit balances, it requires credits to close them. Expense stood as shown in the following before the closing entry was made:

EXPENSE

Debit	Credit
$5,000	

After the closing entry is posted, however, its bal-

ance becomes zero and the account appears thus:

EXPENSE

Debit	Credit
$5,000	$5,000

THE PROFIT AND LOSS ACCOUNT ILLUSTRATED.—After all of the above closing entries are posted, and this is done as at the close of business June 30, 1922, the profit and loss account appears as follows:

PROFIT & LOSS

Debit		Credit	
	$ 5,000		$ 500
	6,000		1,000
			19,000
			6,000
Goes to undi-			3,000
vided profits			500
account	19,000		
	$30,000		$30,000

CLOSING THE PROFIT & LOSS ACCOUNT.—The entries required to close the balance of the profit and loss account into the undivided profits account are as follows:

Debit: Profit & Loss.....$19,000
Credit: Undivided Profits (27).... $19,000

The posting of these entries reduces the balance of the profit and loss account to zero as shown above; and it increases the credit balance of the undivided profits account shown in the trial balance from $10,600 to $29,600 and this is the point of contact with the statement of assets and liabilities which will be shown subsequently.

STATEMENT OF RESOURCES AND LIABILITIES.—This is really a statement of condition of the bank as of a given moment. It is an arrangement of all of those debit and credit balances which represent property owned, debits due the bank, or obligations of it—debits on one side and credits on the other. The two sides should agree in amount. The balances of all accounts which were not taken in the profit and loss statement will appear in the statement of resources and liabilities, but the undivided profits account will be increased by the excess of earnings over expenses.

STATEMENT OF ASSETS AND LIABILITIES OF THE INSTITUTE NATIONAL BANK AS OF THE CLOSE OF BUSINESS JUNE 30,1922

(The numbers appearing opposite the accounts are the same as those appearing in the trial balance.)

Assets

1.	Loans	$1,925,000
2.	Bills Discounted	950,000
3.	Past Due Paper	10,000
4.	U. S. Government Securities	200,000

5	U. S. Government Securities Deposited to Secure Circulation	200,000
6.	U. S. Government Securities Pledged to Secure Postal Savings Deposits	90,000
7.	Securities Other than U. S. Bonds	125,000
8.	Other Bonds Pledged to Secure U. S. Deposits	10,000
9.	Federal Reserve Bank Stock	15,000
10.	Reserve at Federal Reserve Bank	300,000
11.	Cash	75,000
12.	Checks on Clearing House Banks	24,000
13.	Checks on Non-Member Clearing House Banks	14,000
14.	Cash Items	2,000
15.	National Bank Notes on Hand	10,000
16.	Accounts Receivable	500
17.	Internal Revenue Stamps	500
18.	Due from Tenth National Bank, New York	50,000
19.	Five Per Cent Redemption Fund	10,000
20.	Due from Federal Reserve Bank—Collection Account	75,000
21.	Due from Other Banks—Collection Account	50,000
24.	Banking House and Lot	50,000
		$4,186,000

Liabilities

25.	Capital Stock	$ 250,000
26.	Surplus	250,000

25.	Undivided Profits	29,600
34.	Reserve for Taxes	12,600
35.	Reserve for Depreciation on Building	3,000
36.	Circulating Notes Outstanding	200,000
37.	Due to Depositors (including banks)	2,812,300
38.	Certified Checks Outstanding	10,000
39.	Cashier's Checks Outstanding	12,000
40.	Demand Certificates of Deposit	3,000
41.	Dividends Payable	8,000
42.	Time Certificates of Deposit	5,000
43.	Time Deposits	500,000
44.	Postal Savings Deposits	90,000
45.	Overs and Shorts	500
		$4,186,000

It should again be observed that the balances shown in the foregoing statement are the same as those appearing opposite the same accounts in the trial balance heretofore set forth, but that all earnings and expense accounts have been omitted from the asset and liability statement, their net balance alone having increased the undivided profits account. This statement, therefore, shows the condition of the bank after the books have been closed.

CHAPTER XII

Illustrative Entries

ILLUSTRATIONS OF TYPICAL TRANSACTIONS IN EACH ACCOUNT.—In this chapter typical transactions will be given for each account appearing in the trial balance which was explained and exhibited in a previous chapter. These transactions are indicative rather than exhaustive; that is, there will be in practice many transactions which are not here illustrated. In each entry the account numbers appearing in the trial balance will be used so that ready reference may be made to the accounts as they appear in the trial balance and statements. When the terms "debit cash" and "credit cash" are used they should not be taken too literally, because while the effect of cash transactions is either a debit or credit to cash, the detail of accomplishment is rather involved. However, that matter is treated in another chapter where cash is explained in more detail. Similarly, when the term debit or credit "due to depositors" is used in a transaction it should be understood to include a debit or a credit also to a specific depositor's account on the depositors' ledger. This is accomplished in various ways in various banks, but we cannot treat all those variations here. In each of the illustrations it should be assumed that debit and credit tickets are written for the entries given. Here again in practice summarized figures would be put through wherever possible as a matter of economy,

but that is method rather than principle. We are concerned here with principle.

PLAN OF ILLUSTRATIONS.—The transactions in each account will be handled under the following plan:

1. The transaction will first be stated.
2. The general ledger entries will then be given.
3. Following that, the more standard auxiliary records will be exhibited in support of the general ledger account which is being explained.
4. The method of proof will then be briefly stated, that is, proof of the auxiliary records with control accounts.

TRIAL BALANCE.—The trial balance is again inserted here for the student's convenience:

	Debit Balances	
1.	Loans	$1,925,000
2.	Bills Discounted	950,000
3.	Past Due Paper	10,000
4.	U. S. Government Securities	200,000
5.	U. S. Government Securities Deposited to Secure Circulation	200,000
6.	U. S. Government Securities Pledged to Secure Postal Savings Deposits	90,000
7.	Securities Other than U. S. Bonds	125,000
8.	Other Bonds Pledged to Secure U. S. Deposits	10,000
9.	Federal Reserve Bank Stock	15,000
10.	Reserve at Federal Reserve Bank	300,000
11.	Cash	75,000

12.	Checks on Clearing House Banks	24,000
13.	Checks on Non-Member Clearing House Banks	14,000
14.	Cash Items	2,000
15.	National Bank Notes on Hand	10,000
16.	Accounts Receivable	500
17.	Internal Revenue Stamps	500
18.	Due from Tenth National Bank, New York	50,000
19.	Five Per Cent Redemption Fund	10,000
20.	Due from Federal Reserve Bank—Collection Account	75,000
21.	Due from Other Banks — Collection Account	50,000
22.	Expense	5,000
23.	Interest Paid on Deposits	6,000
24.	Banking House and Lot	50,000
		$4,197,000

Credit Balances

25.	Capital Stock	$ 250,000
26.	Surplus	250,000
27.	Undivided Profits	10,600
28.	Domestic Exchange	500
29.	Commissions Collected	1,000
30.	Interest on Loans	19,000
31.	Discount	6,000
32.	Interest on Investments	3,000
33.	Bond Profits	500
34.	Reserve for Taxes	12,600

35.	Reserve for Depreciation on Building	3,000
36.	Circulating Notes Outstanding	200,000
37.	Due to Depositors (including banks)	2,812,300
38.	Certified Checks Outstanding	10,000
39.	Cashier's Checks Outstanding	12,000
40.	Demand Certificates of Deposit	3,000
41.	Dividends Payable	8,000
42.	Time Certificates of Deposit	5,000
43.	Time Deposits	500,000
44.	Postal Savings Deposits	90,000
45.	Overs and Shorts	500
		$4,197,000

A LOAN MADE TRANSACTION (1).—On June 30 the bank makes a loan to W. Byrnes on his ninety-day note, secured by Liberty Bond collateral. The general ledger entries are as follows:

Debit: Loans (1) $1,200
Credit: Due to Depositors (37) ... $1,200

or

Credit: Cashier's Checks Outstanding (39) 1,200

This debit to the loan account would cause an increase in it to the extent of $1,200 as shown by the following illustration:

	June 29			June 30		
	Debit	Credit	Balance	Debit	Credit	Balance
Loans			900,000	1,200		901,200

The amounts in this and other illustrations given are not intended to lead up to the figures given in the trial balance.

AUXILIARY LOAN RECORDS.—The following are the more important auxiliary loan records affected by the making of a loan. No attempt is made to suggest the most desirable size, shape, or arrangement of these records. The only purpose is to give the more important data which should appear on them:

1. Register of Loans made or Loan Journal—a book of original entry.

Loan Number	Amount of Loan	Name of Borrower	Check Number	Customer's Account	Cashier's Check Account
271	1,200	W. Byrnes	506	1,200	

2. Loan Card—a card for each loan is used for convenience in handling loans.

Amount of Loan	$1,200
Date Loan made	June 30
Loan No.	271
Name	W. Byrnes
Address	16 Worth St., City
Rate	6%
Collateral	$1,200 Victory 4¾% due 1923

3. Loan Envelope—this is usually a durable

container for the note, collateral, and correspondence, showing on its face the following:

Borrower	W. Byrnes
Loan No.	271
Amount	$1,200
Date made	6/30/1922
Collateral	$1,200 Victory 4¾% due 1923

4. Loan Ledger—this shows all loans classified by borrower, and the interest status of each.

	Borrower	W. Byrnes		Address	16 Worth St., City			
						Interest		
Date	Loan No.	Loans Made	Loans Paid	Bal.	Rate	Date Due	Amount	Date Paid
6/30	271	$1,200		$1,200				

Large banks doing both a demand and a time loan business with the same customer would have a liability ledger also, showing the current amount of all kinds of loans under each borrower. Separate loan ledgers and separate general ledger accounts would be used for each class, that is, time and demand loans.

5. Maturity Tickler showing the loans maturing each day.

September 28				
Date of Loan	Name	Loan No.	Amount	Disposition
6/30	W. Byrnes	271	$1,200	....

PROOF OF LOANS.—In good banking practice the loan accounts should be proved frequently by determining the fact of agreement between the balances on the loan ledger and the balance of the loan account on the general ledger. The cards likewise should be proved with the general ledger.

A LOAN PAID TRANSACTION (1).—L. Byron pays his six months' loan of $600 with interest on June 30. The general ledger entries for the transaction are:

Debit: Cash (11) (to cover check or cash received)	$618	
or		
Debit: L. Byron	618	
Credit: Loans (1)		$600
Credit: Interest on Loans (30)		18

The change in the general ledger loan account caused by this entry is shown in the following illustration:

	June 29			June 30		
	Debit	Credit	Balance	Debit	Credit	Balance
Loans			1,300,000		600	1,299,400

AUXILIARY RECORD ENTRIES.—The card would be stamped "paid," the note indorsed and returned with the collateral, and the customer's receipt taken therefor; and the loan envelope would be stamped "completed" and filed with the paid loans. An entry would also be made in the maturity tickler for June 30, which would involve simply barring out the amount of Byron's note in the tickler and stating

the fact of payment in the disposition column. These entries are so simple as to require no illustration, but there are two records, the entries of which are a bit more involved. These are the following:

1. Entry in the register or journal of loans paid.

Debit Side			Credit Side		
Customer's Account	Cash and Checks	Borrower's Name	Loan No.	Amount of Loan	Interest
618		L. Byron	205	600	18

It should be noted that the debits on this sheet equal the credits.

2. Entry in Loan Ledger showing loan paid.

Name L. Byron						Address City		
Date	Loan No.	Loans Made	Loans Paid	Bal.	Rate	Date Due	Interest Amount	Date Paid
12/31	205	$600.		$600.	6%			
6/30	205		$600.			6/30	18.	6/30

This illustration shows both loans made and paid entries for Byron's loan.

DISCOUNTING A BILL (2).—On June 30, C. E. Adams tenders for discount the ninety-day note of J. M. Barber, dated May 31. The amount of the note is $1,800. The general ledger entries would be as follows:

Debit: Bills Discounted (2) $1,800
Credit: Due to Depositors (37) $1,782
Credit: Discount (31) 18

If the note were interest-bearing the interest would be added to the face of it, and it would then be discounted for the gross amount.

AUXILIARY RECORD ENTRIES. — Auxiliary or department entries are made in the discount register or journal, the discount ledger—a record classifying discounts by borrower—and in the maturity tickler which shows the notes maturing each day.

1. The Discount Register would contain:

Date discounted	June 30
For whom discounted	C. E. Adams
The payer	J. M. Barber
Where payable	First National Bank, City
Indorsers	C. E. Adams
Number of the note	209
The time or tenor	90 days
Maturity date	August 29
Days to run	60 days
Amount	$1,800
Rate of discount	6%
Amount of discount	$18
Exchange charges	
Revenue tax stamp charges	
Proceeds	$1,782

2. The Discount Ledger would include:

Name of borrower (at top of page)	C. E. Adams
Date discounted	June 30
Paper	J. M. Barber
Indorsers	C. E. Adams
Due date	August 29
Discounts made (a money column)	$1,800
Discounts paid (a money column)	
Balance of discounts	$1,800

3. The Discount Tickler would show the following under the date of August 29:

Date discounted	June 30
Rate of discount	6%
Discounted for	C. E. Adams
Drawee	J. M. Barber
Where payable	First National Bank, City
Amount	$1,800

PROOFS.—The discount ledger and the discount tickler should agree in grand total with the balance of the bills discounted account on the general ledger. Proofs should be made frequently. The total of the bills discounted each day shown by the register, added to the balance of the general ledger account as at the close of the preceding day less discounts paid on the current day, should equal the general ledger closing figure; and finally: Amount column of discount register should equal the sum of all the other money columns.

A DISCOUNT PAID TRANSACTION (2).—The general ledger entries covering the payment of the Barber note, just mentioned, maturing on August 29, would be as follows:

Debit: Due to Depositors (37).....	$1,800	
or		
Debit: Cash (11).....	1,800	
Credit: Bills Discounted (2).....		$1,800

The debit, of course, would depend upon the means used by the obligor in payment.

AUXILIARY ENTRIES.—No entry is required in the bills discounted register when a note is paid, but there should be an entry in the discount ledger reducing the liability of the borrower, in this case Adams; (this entry is made by lining out the original); and there would be an entry also in the maturity tickler under date of August 29. Reference should be made to the illustrations of these records given under the preceding transaction.

PAST DUE PAPER TRANSACTION (3).—Assume that owing to a delay in the mails H. A. Burt failed to place us in funds to cover his unsecured loan maturing on June 30, the amount of the loan being $2,000 and the interest $50. The general ledger entries to cover this situation would be as follows:

Debit: Past Due paper (3) $2,000
Credit: Loans (1)..... $2,000

The balance of the loan account would be reduced $2,000 by this entry, and the balance of the past due paper account would be increased accordingly. If there were no items in it when this entry was made, the general ledger account on "past due paper" would appear as follows as at the close of the day.

	June 30			July 1		
	Debit	Credit	Balance	Debit	Credit	Balance
Past due paper	2,000.		2,000.			

AUXILIARY RECORDS.—H. A. Burt's liability would remain the same in the loan ledger, excepting that the fact of non-payment would be shown by

notation. A similar notation should be made on the loan card and on the maturity tickler. In the tickler the item should be carried forward for the next day. For the purpose of the officers and directors a separate record is kept for past due paper. As all of the information concerning the item is already on similar records in the bank, there is no need for great detail on the past due paper record. The following is sufficient: (1) Maturity Date; (2) Loan Number; (3) Borrower; (4) Indorser; (5) Amount of Loan; (6) Date Paid. Open items in the foregoing record should obviously prove as of the close of each day with the balance of the "past due paper" account on the general ledger of the bank.

PAYMENT OF PAST DUE PAPER (3).—It should be remembered that this account would not be used for any loans or discounted bills which are known to be uncollectible. Assume for purposes of illustration that the item mentioned in the previous transaction, namely the loan of H. A. Burt, was paid on July 1. The general ledger entries on the day of payment would be:

Debit: Cash (11)	$2,050.33	
or		
Debit: Due to Depositors (37) ..	$2,050.33	
Credit: Interest (30)		50.33
Credit: Past Due Paper (3) ...		$2,000

These entries include the interest for the additional day. The usual closing entries would be made in the register of loans paid, on the loan card, the loan ledger,

and in the maturity tickler. It should be borne in mind that in proving the auxiliary loan ledger with the general ledger, past due paper would, of course, be included.

THE PURCHASE OF UNITED STATES GOVERNMENT SECURITIES (4). — Assume that on June 30 we buy 100 Liberty Bonds at 3½%, due 1932 at $99.50, that the accrued interest thereon is $20 and that the commission is $5. These figures on interest and commission are based on no particular interest or commission rate. The general ledger entries under the cash as against the accrual method, which will be fully explained subsequently, are as follows:

Debit: U. S. Government Securities (4)	$9,955	
Debit: Interest on Investments (32) ..	20	
Credit: Cashier's Checks (39).....		$9,875

Illustrations of the general ledger have been given during previous transactions so that they will not be shown here. It is sufficient to say that the U. S. Government security account would be handled as to debits and credits on the general ledger just as the loan and bills discounted accounts which have already been illustrated.

AUXILIARY SECURITY RECORDS. — Depending upon the size of the bank various records of securities should be kept, among which are: the bond register, a book of original entry; the bond or security ledger; the bond number record, showing the numbers and denominations of all securities; and a coupon ma-

turity record. Illustrations will be given here of only the more important records, namely the register and ledger:

1. The Bond Register would show this:

Purchased from	Belknap & Co.
Security description	Liberty 3½'s due 1932
Par value	$10,000
Unit price	$99.50
Price	$9,950
Accrued interest	$20
Seller's commission	$5
Cashier's check	$9,975

It should be noted that the cost plus the accrued interest and seller's commission columns equals the amount paid for the securities.

2. Bond or Security Ledger is posted from the register which is illustrated above. The name of the security would appear on the top of the page of the ledger, the debit side of which should give substantially the following particulars, usually arranged in vertical columnar form:

Date	June 30
Description	Liberty 3½'s due 1932
From whom bought, etc.	Belknap & Co.
Par value	$10,000
Unit price	99.50
Accrued interest	20
Commissions	5
Cost	9,955
Balance	9,955

Accrued interest and interest collected on bonds is kept by many on the bond ledger. That is desirable but not vital. It will be noted that accrued interest is strictly not a part of the cost, because the bank gets that back on interest maturity date.

THE PROOF OF THE BOND ACCOUNT.—The money amount of the balance column of the bond ledger, which is reduced from time to time by sales and, as will be shown, by applications from undivided profits in consequence of depreciating values, should agree at all times with the general ledger, specifically with accounts numbers 4, 5, 6, 7 and 8 of the trial balance. This will become clearer as we proceed. The bond ledger just described is used for all security accounts. Bonds pledged with Governmental authorities and others are not ordinarily credited on the bond ledger like sales; notations made on the ledgers show the fact of pledge and that is really sufficient because the securities are still owned by the bank.

A SALE OF UNITED STATES GOVERNMENT SECURITIES (4).—In most all respects such a transaction would involve entries just the opposite of those described under a transaction of purchase. Assume that we sold on June 30 fifty Liberty 3½'s due 1932 at $100 flat, accrued interest $10, commission $2.50. The general ledger entries would be:

Debit: Cash (11)	$5,007.50	
Credit: Interest on Investments (32)		$ 10
Credit: U. S. Government Securities (4)		4,997.50

	June 29			June 30		
	Debit	Credit	Balance	Debit	Credit	Balance
U. S. Gov. Securities			95,042.50	9,955	4,997.50	100,000

THE AUXILIARY RECORDS. — The entries in the register and ledger on a sale of bonds are slightly different. Information required to record a sale is somewhat different from that required to record a purchase. The auxiliary entries covering the above sale are as follows:

1. Bond Register:

Sold to	Traders National Bank, City
Security description	Liberty 3½'s 1932
Par	$5,000
Unit price	100
Commission	2.50
Proceeds	4,997.50
Accrued interest	10
Funds received	5,007.50

2. Bond Ledger entry on the credit side would be as follows:

Date	June 30
Sold to and remarks	Traders National Bank, City
Par value	$5,000
Unit price	100
Accrued interest	10
Commission	2.50
Proceeds	4,997.50
Funds received	5,007.50

This entry on the credit side of the ledger would reduce the amount shown in the money column under "balance," which is on the debit side, by $4,997.50, leaving a money value balance for this security of $4,957.50. In other words, the cost of securities purchased, increased by the commission, less the proceeds of sales diminished by the selling commission, equals the book value and also the general ledger value of securities on hand. This is complicated by another fact, and that is that when securities depreciate in value, conservative policy demands that they be "written down." This may be accomplished by charging undivided profits or a security depreciation account of the bank and crediting the security account on both auxiliary and general ledger, or by using interest collected for the same purpose. The result of that process is to reduce the amount of the money value of the securities shown under "balance" on the debit side of the bond ledger.

A TRANSACTION SHOWING THE UNITED STATES GOVERNMENT SECURITIES DEPOSITED TO SECURE CIRCULATION (5).—The Treasurer issues lists of the Government securities which are eligible for this purpose. Assume that $200,000 bonds have been sent to the Treasurer as security for circulation. The general ledger entries to cover such a transaction should be as follows:

Debit: U. S. Government Bonds
Deposited to secure Circulation (5) $200,000

Credit: U. S. Government Securities (4) $200,000

United States bonds available for this collateral purpose have been selling at a premium. If there was a premium of two points on the bonds pledged the entry would be as follows:

Debit: U. S. Government Securities (4) $200,000
Debit: Premium on U. S. Bonds... 4,000
Credit: U. S. Government Securities (4) $204,000

Under such an arrangement there would be a premium account on the general ledger among the assets which would be reduced from time to time by applications of interest collected. This, however, is an accrual matter which is dealt with in a subsequent chapter.

AUXILIARY RECORDS.—As was previously stated no formal auxiliary records are absolutely required for such a transaction. A notation on the bond ledger under the account of the securities pledged signifying the fact and amount of pledge, is sufficient in support of the general ledger figures. A more complete practice, however, is that of setting up a memorandum account in the bond ledger showing in one place all of the securities deposited for circulation purposes with the Treasurer. This would be in addition to the notations appearing in the regular bond ledger accounts. A memorandum account is especially desirable when a variety of securities is

pledged. When such an account is used it should, of course, prove with the general ledger account showing bonds pledged to secure circulation.

A WITHDRAWAL OF SECURITIES DEPOSITED TO SECURE CIRCULATION (5).—All that need be said here is that the entries in the general ledger and auxiliary books would be just the reverse of those explained under the previous transaction. Of course, if the circulation is decreased, the 5% redemption fund may be reduced proportionately.

UNITED STATES GOVERNMENT SECURITIES PLEDGED TO SECURE POSTAL DEPOSITS (6).—Lists of the securities available for deposit as security for the postal savings funds are likewise published from time to time. These lists have been confined to municipals, that is, bonds of the U. S. Government and its political subdivisions. It should not be assumed, however, that all of these bonds are accepted at their par value. In general bonds of major political divisions are accepted at par while bonds of minor political divisions are accepted for only 75% or so of their market value. Assume that $90,000 in book value of Third Liberty 4¼'s, due 1928, selling at par have been pledged. The general ledger entries for that transaction would be as follows:

Debit: U. S. Government Securities Pledged to Secure Postal Savings Deposits (6)	$90,000	
Credit: U. S. Government Securities (4)		$90,000

AUXILIARY RECORDS. — What was said concerning the pledge of securities as collateral to circulation applies here. Securities pledged for this purpose should be set up on the general ledger at the value at which they have been carried in the bond ledger. This would mean that in accordance with regulations a security which was accepted by the Government at par but was actually held on the books at $90,000 market value of such securities would be sufficient collateral for $100,000 postal savings deposit. A withdrawal of collateral for postal deposits would involve a reversal of the foregoing general ledger entries.

TRANSACTIONS IN SECURITIES OTHER THAN U. S. BONDS (7). — A purchase of other bonds would be recorded exactly as was explained for a purchase of U. S. Government securities, except that the debit side for the entry on the general ledger would be slightly different, all of the general ledger entries being as follows:

Debit: Securities other than U. S. Bonds (7)
Debit: Interest on Investments (for the Accrued Interest) (32)
Credit: Cashier's Checks (39)

The bond register and bond ledger entries would be exactly the same under their proper security captions, as was explained for a purchase of U. S. Bonds. It is probably advisable to segregate all U. S. Government securities into one section of the bond ledger, but the bookkeeping would not be affected thereby. A sale

of other bonds would result in the following general ledger entries:

Debit Cash (11)
or
Debit: Due to Depositors (37)
Credit: Securities other than U. S. Bonds (7)
Credit: Interest on Investments (32) (for the accrued interest)

The theory behind these debits and credits to the account "interest on investments" is as follows: If a bond with coupon maturity dates of January 1 and July 1 is purchased on April 1, three months of interest has obviously accrued on it. Assume for example that each coupon on the bond is worth $50. That means that $25 interest is accrued and when "interest on investments" is debited or charged for that $25, the balance of this earning account has been decreased by just that $25. However, on July 1 when the $50 is collected, a credit of that much is made in the "interest on investments" account, but $50 has not actually been earned from the date of purchase. From April 1 to July 1 the bank has really only earned $25, and that is the net credit which remains in the "interest on investments" account by debiting it first with $25 and then crediting it with $50.

OTHER BONDS PLEDGED TO SECURE U. S. DEPOSITS (8).—As was explained, the municipal bonds of States, counties, and smaller divisions are eligible as security for such deposits. The bookkeeping process for these pledges is exactly as has

been previously explained. If other bonds of the book value of $10,000 are pledged to secure postal savings deposits, the general ledger entries are:

Debit: Other Bonds Pledged to Secure
U. S. Deposits (8) $10,000
Credit: Securities Other Than U. S.
Bonds (7) $10,000

ACQUISITION OF FEDERAL RESERVE BANK STOCK (9).—By law, member banks of the Federal Reserve System are required to subscribe 6% of their paid-up capital and surplus in stock of the Federal Reserve bank of the home district. Fifty per cent of the subscription of all member banks has been called. By law payment must be made in gold and gold certificates. Six per cent of the capital and surplus of this bank is $30,000. The entry for the payment of $15,000 in par value of the stock carried on its books must have been as follows:

Debit: Federal Reserve Bank Stock
(9) $15,000
Credit: Cash (11) $15,000

The transactions in this account are too infrequent really to require an auxiliary record of them, but it is good practice to set up a page in the bond ledger for the Reserve bank stock, handling it on the auxiliary record just like any other investment.

TRANSACTIONS WHICH INCREASE RESERVE AT THE FEDERAL RESERVE BANK (10).—These are numerous and sometimes rather

complicated. The bookkeeping for rediscounts and Federal Reserve bank advances will be explained in a subsequent chapter. However, a few of the day to day transactions which increase the reserve are the following:

1. An Excess Clearing House Balance—In Reserve bank cities where Reserve banks settle the clearing house balances, if a bank sends a greater amount of checks than it receives back from the clearings, the result is a debit to the reserve, for example: If this bank sends out $300,000 worth of checks and receives back $290,000, the result in general ledger changes would be as follows:

Debit: Due to Depositors (37)	$290,000	
Debit: Reserve at Federal Reserve Bank (10)	10,000	
Credit: Due to Depositors (37)		$276,000
Credit: Checks on Clearing House Banks (12)		24,000

The detailed process by which this is accomplished in the various Reserve cities for member banks may vary, but the effect is the same. After the morning proof the clearing house manager would report to the Federal Reserve Bank the excess or deficiency for each clearing bank, and the Reserve bank or branch would debit or credit member banks accordingly. The member banks receiving as they do the same figures, make corresponding entries on their own books. Of course, there are various other ways of settling clearing house balances in different cities.

2. Checks Deposited—Certain checks deposited by member banks located in the same city as a Federal Reserve bank may be charged to the reserve account on the same day, provided they are in the hands of the Federal Reserve bank for collection before 9 A. M. The general ledger entry covering such items would be:

Debit: Reserve at Federal Reserve Bank (10)
  Credit: Due to Depositors (37)

3. Transit or Out-of-town Items for Which Remitting Customers of the Bank Have Been Credited—Owing to the volume of these items and the variety of their sources much detail could be given with respect to them, but that would be largely a matter of bank operation. It must suffice here to exhibit only the basic entries involved in their dispatch. These transit items are deposited for the most part by customers in their daily deposits and remittances. As depositors have been credited with them on receipt, the items must be charged to some account on the ledger pending their actual collection. If they are collected through the Federal Reserve System they are charged to No. 18, "due from Federal Reserve bank-Collection account," as an offset to the credit given the depositor. After the lapse of one, two, four, five, or eight days, depending upon the time it takes to send the items to the drawees throughout the country and receive back the funds for them, the collection account just mentioned is credited, and the reserve account

charged. To illustrate specifically: Assume that a member bank located in New York City receives from its depositors on June 30 $5,000 worth of checks drawn on a member bank located in the city of Chicago. In accordance with the Federal Reserve regulations which are based on the back and forth transit time between New York and Chicago, the reserve account, No. 10, would be charged on July 2. The general ledger entries, therefore, on June 30, the date the bank receives the checks, would be:

Debit: Due from Federal Reserve Bank-
Collection Account (20) $5,000
Credit: Due to Depositors (37) $5,000

On July 2, the available date, the general ledger entries would be:

Debit: Reserve at Federal Reserve Bank
(10) $5,000
Credit: Due from Federal Reserve
Bank-Collection Account (20) .. $5,000

A transit letter containing the $5,000 worth of checks would be sent on June 30 by the New York member bank to the Chicago Federal Reserve Bank (either direct or through the district Reserve bank), and a notice would also be sent to the Federal Reserve Bank of New York, stating that these checks to the value of $5,000 had been sent, which would cause the New York Reserve Bank to set up in its own ledgers fig-

ures to agree with those of the member bank in its city.

AUXILIARY RECORD OF THE FEDERAL RESERVE BANK COLLECTION OR FLOAT ACCOUNT.—Having explained the use of the Federal Reserve Bank-collection account, it is probably advisable to explain here the supporting Federal Reserve Bank-collection ledger. This is ordinarily a record of the Boston or progressive type similar in character to the illustrations of the general ledger previously given. In the usual form the names of the Federal Reserve banks and their branches are grouped in classes down the middle of the page, on each side of which are debit and credit columns for each day as follows:

June 30		July 1			July 2		July 3	
Debit	Credit	Debit	Credit		Debit	Credit	Debit	Credit
20,000 500				2-day points: Chicago	$25,000	$5,000	$20,000	
				Richmond				
				Etc.				

From the foregoing it will be observed that a charge has been posted on June 30 for $5,000 worth of checks and that a corresponding credit signifying the fact of collection has been put through opposite Chicago on July 2. Irregular items not paid, of course, would require adjusting entries after their irregularity was reported. There are seperate classifications on the collection ledger, just illustrated, for each group of transit points namely one, two, four, five and eight.

The principle is the same in each group, viz: A debit on the date the items were sent for collection and a credit on the automatic available date. The grand total of all debit balances in each classification on the collection or transit ledger must agree each day with the balance of the general ledger Federal Reserve bank-collection account No. 20.

4. Deposits of Cash Made by Member Banks—Member banks frequently send cash to the Federal Reserve bank to dispose of surplus currency or to build up their reserves. The general ledger entries covering such a transaction are as follows:

Debit: Reserve at Reserve Bank (10) . . $5,000
Credit: Cash (11) $5,000

5. Time Collections—Collection items are frequently sent to the Federal Reserve bank for collection, and on receipt of the advice of payment the following entries are made by the member bank which sent the items:

Debit: Reserve at Reserve Bank (10) . . $15,000
Credit: Due to Depositors (37) $15,000

It should be remembered that when the account "due to depositors" is debited or credited, it causes an entry to the debit or credit of some depositor's account as well. That fact is not shown in these illustrations, but should be constantly kept in mind.

AUXILIARY RECORD OF RESERVE ACCOUNT.—No auxiliary record is needed other than

the detail shown on debit and credit posting sheets usually kept by the general bookkeeper. The reserve account should, however, be frequently reconciled with the statement of it rendered by the Federal Reserve bank. Reconcilements are subsequently explained.

TRANSACTIONS WHICH DECREASE THE RESERVE AT THE FEDERAL RESERVE BANK (10).—These likewise are numerous, but some of the recurring ones are as follows:

1. An excess of Incoming Clearings—The receipt back from the clearing house of a larger amount than is sent would cause a decrease in the reserve. Suppose $200,000 checks are sent and $215,000 are brought back from the clearing house. The general ledger entries in brief resulting from such a situation would be:

Debit: Due to Depositors (37)	$215,000	
Credit: Reserve at Federal Reserve Bank (10)		$15,000
Credit: Due to Depositors (37)		176,000
Credit: Checks on Clearing House Banks (12)		24,000

2. A Money Transfer—Suppose a correspondent of the bank directs it to make a payment of $200,000 through the Federal Reserve bank to another bank in some other city. The general ledger entries resulting from that would be:

Debit: Due to Depositors (37)	$200,000	
Credit: Reserve at Federal Reserve Bank (10)		$200,000

3. A Withdrawal of Funds—To illustrate: A member bank requests $15,000 of currency from the Federal Reserve bank for the day's transactions. The general ledger entries would be:

Debit: Cash (11).....$15,000
  Credit: Reserve at Federal Reserve
    Bank (10) $15,000

CASH (11).—The cash account is explained in some detail elsewhere in this book. It should be borne in mind that while cash is debited and credited like any other account in these illustrations, the recording of these debits and credits in the cash account is accomplished differently from the entries covering any other item. Briefly, the cash transactions are recorded arithmetically without the use of tickets or other first entry records.

CHECKS ON CLEARING HOUSE BANKS (12).—Assuming that $24,000 clearing house checks have been taken in by the receiving teller, the entries on the general ledger reflecting these items will be as follows:

Debit: Checks on Clearing House
    Banks (12) $24,000
  Credit: Due to Depositors (37)... $24,000

On the day following these entries the reversing entries are:

Debit: Cash (11).....$24,000
or
Debit: On Reserve at Federal Reserve
Bank (10).....$24,000
Credit: Checks on Clearing House
Banks (12)..... $24,000

CHECKS ON NON-MEMBER CLEARING HOUSE BANKS (13).—As an illustration of the manner in which this account is handled: Assume that at the close of the day the bank held $14,000 of these checks, taken usually through the receiving teller. The entries to show them on the general ledger are as follows:

Debit: Checks on Non-Member Clearing House Banks (13).....$14,000
Credit: Due to Depositors (37).... $14,000

The following day when the checks are collected and funds come in therefor, the following entries will be made:

Debit: Cash (11).....$14,000
Credit: Checks on Non-Member
Clearing House Banks (13)..... $14,000

CASH ITEMS (14).—As explained, these are largely checks for which credit of some kind has been given, but which are held over because they are slightly irregular. These items are liquidated or

"turned over" each day. Assume that checks amounting to $2,000 are held over on a certain evening. The general ledger entries would be:

Debit: Cash Items (14) $2,000
  Credit: Due to Depositors (37)..... $2,000

On the following day the entry reversing the cash item amount previously set up would be in effect as follows:

Debit: Cash (11)..... $2,000
  Credit: Cash Items (14)..... $2,000

The offsetting debits just shown are only indicative. In fact, there might be many debits actually resulting from the collection of these cash items. Irregular items which must be returned to the depositor for correction are charged back to his account.

NATIONAL BANK NOTES ON HAND (15). —A transaction showing the increase of National bank notes on hand is illustrated as follows: After the deposit of $200,000 of Liberty Bonds, for instance, the Comptroller of the Currency sends the equivalent in notes to the bank. Ignoring at this time the bond entry, which has been dealt with previously, the general ledger entries for the notes received are:

Debit: National Bank Notes on
    Hand (15) $200,000
  Credit: Circulating Notes Out-
    standing (4) $200,000

When notes are paid out or placed in tills with other cash for the purpose, the general ledger entries are:

Debit: Due to Depositors (37) $200,000
or
Debit: Cash (11) 200,000
Credit: National Bank Notes on Hand (15) $200,000

Auxiliary records of these notes are kept not only by the teller but in the larger banks by the general bookkeeper and by the auditor.

ACCOUNTS RECEIVABLE TRANSACTIONS (16).—Assume the bank pays $1.50 registered and insured mail charges for a customer and awaits his remittance to cover. The general ledger entries at the time the payment is made by the bank should be:

Debit: Accounts Receivable (16) $1.50
Credit: Cash (11) $1.50

On receipt of the remittance or authorization to charge the customer's account, the entries are:

Debit: Cash (11) $1.50
or
Debit: Due to Depositors (37) $1.50
Credit: Accounts Receivable (16) $1.50

AUXILIARY RECORDS. — In those banks where items of this nature become rather numerous, it is well to establish an auxiliary record of these accounts receivable items showing the detail of these

charges in columns somewhat as follows: (1) Date; (2) Customer; (3) Debit; (4) Credit; (5) Balance; and (6) Date Paid (that is, date on which customer repays the bank). The total of the items appearing in the balance column of this auxiliary record should at all times agree with the balance of accounts receivable on the general ledger.

INTERNAL REVENUE STAMPS (17).—To illustrate a transaction showing the purchase of these stamps, which are used largely for time paper where the customer has not attached the stamps required, assume the bank purchases $500 worth of stamps. The transactions would be as follows:

Debit: Internal Revenue Stamps (17).....$500
  Credit: Cash (11)..... $500

Then suppose 40 cents in stamps are attached to a $2,000 note collected for a customer. The following entries show that transaction:

Debit: Due to Depositors (37) (and customer's account) .....$ .40
  Credit: Internal Revenue Stamps (17) $ .40

TRANSACTIONS IN THE ACCOUNT DUE FROM TENTH NATIONAL BANK, NEW YORK (18).—As has been said, this asset represents funds of the bank on deposit with a New York correspondent. Let us illustrate by a transaction which increases that balance. Suppose this bank (meaning the bank whose

trial balance is being explained) sends to the Tenth National Bank a cash remittance letter containing items drawn on other New York banks. The total checks enclosed amount to $20,000. The general ledger entries made to cover this remittance would be:

Debit: Due from Tenth National Bank, New York (18) $20,000
Credit: Due to Depositors (37) $20,000

Numerous other transactions could be given to show increases in the balance of the account with the New York Bank, but the entries would be the same excepting that items sent for collection would be charged only after the advice of payment was received.

A DECREASE IN ACCOUNT WITH CORRESPONDENT.—A transaction showing a decrease in the balance carried in the New York bank might be as follows: A customer comes in and buys New York exchange for $5,000 in the form of a check drawn on the Tenth National Bank. The entries to cover that transaction would be:

Debit: Cash (11) $5,000
or
Debit: Due to Depositors (37) (that is, customer's account) 5,000
Credit: Due from Tenth National Bank, New York (18) $5,000

The general ledger account of the New York bank is really the only bookkeeping record required, provided its space permits showing all debits and credits.

ENTRIES IN THE 5% REDEMPTION FUND (19).—This was explained as the 5% deposit placed with the Treasurer of the United States for the purpose of redeeming circulating notes which are shipped to him from time to time. The entries in this account are simple. Suppose that $10,000 was sent to the Treasurer for redemption purposes. The general ledger entries to cover such a remittance are as follows:

Debit: 5% Redemption Fund (19) . . . $10,000
  Credit: Cash (11) $10,000

As illustrations of general ledger accounts have been given in previous transactions, it is felt that there is no need for their repetition here. When notes are redeemed by the Treasurer the 5% fund is, of course, reduced until the bank makes another remittance to cover the amount of the redemption. Suppose that $2,000 of the bank's notes are redeemed by the Treasurer and destroyed. Upon receipt of information to the above effect and that the Treasurer had reduced the bank's balance accordingly, the general ledger entries would be:

Debit: Circulating Notes Outstanding
  (36) $2,000
  Credit: 5% Redemption Fund (19) . . $2,000

DUE FROM FEDERAL RESERVE BANK—COLLECTION ACCOUNT (20).—A transaction in

this account was explained in connection with account No. 10, reserve at Federal Reserve bank. As has been said, the collection account is an offset to credits made in depositors' accounts for out-of-town items they have remitted. No. 21, explained further on, is another collection account covering those items which are not collected through the Federal Reserve System. On the day that items are dispatched to one of the twelve Federal Reserve banks for collection, the general ledger entries made are:

Debit: Due from Federal Reserve Bank—Collection Account (20)
  Credit: Due to Depositors (37)

When returns are received, which is automatically in accordance with the time required to collect items, the entries are:

Debit: Reserve at Federal Reserve Bank (10)
  Credit: Due from Federal Reserve Bank—Collection Account (20)

That is, the items become available in the reserve account automatically.

AUXILIARY RECORD OF FEDERAL RESERVE BANK — COLLECTION ACCOUNT.—The auxiliary ledger of this account was illustrated in connection with account No. 10. Briefly, when items are sent, debits are entered in the ledger opposite the name of the Federal Reserve bank to which sent, and in accordance with the one, two, four, five and eight day schedule, when the items are collected, credits

are entered opposite the Federal Reserve banks to which the items have been dispatched. The total of all the excess debits over credits in this auxiliary Federal Reserve collection ledger must agree as of the close of each day with the balance of the Federal Reserve bank collection account (20).

DUE FROM OTHER BANKS—COLLECTION ACCOUNT (21).—This account is handled almost exactly like the Reserve bank—collection account just explained, excepting that it is concerned with items which are sent to other than Federal Reserve banks for collection. The bookkeeping principle is the same. That is, when the checks are dispatched, the general ledger entries are:

Debit: Due from Other Banks—Collection Account (21)
Credit: Due to Depositors (37) (that is, the various owners of the items)

Debits are likewise made in the collection ledger against the accounts of the collecting banks. These debits support the general ledger debit to the collection account. On the estimated available dates or on receipt of remittances from the correspondent banks covering the items sent to them, the general ledger entries are:

Debit: Due to Depositors (37)
or
Debit: Cash (11)

Credit: Due from Other Banks—Collection Account (21)

The character of the foregoing debit would vary depending upon the funds received from the collecting banks.

AUXILIARY RECORDS.—The auxiliary ledger supporting the other bank collection account is substantially the same as that used for the Federal Reserve bank—collection account. There is an account for each bank to which items are sent, and those accounts are charged when the items are dispatched and as remittances are received, or, as was said, at the estimated available date. Exchange charges complicate somewhat the bookkeeping on these collection ledgers, but their presence simply means more figures. They do not affect the principle of the bookkeeping. For example, if a $2,000 item is sent to a correspondent and charged to it on the collection ledger, and if the correspondent deducts fifty cents for exchange charges, the entries resulting therefrom might be illustrated as follows:

Debit: Cash (11)	$1,999.50	
Debit: Domestic Exchange	.50	
Credit: Correspondent on Collection Ledger		$1,999.50
Credit: Correspondent on Collection Ledger, also for the amount of the exchange		.50

While this would indicate that this bank stands the exchange charge, that may not be the case because at the time of the original deposit, exchange is usually deducted for such out-of-town items as must bear it. The entries showing an exchange deduction from a deposit are as follows:-

Debit: the account of the correspondent on the Collection Ledger	$2,000	
Credit: Due to Depositors (37)		$1,999.50
Credit: Domestic Exchange		.50

This last entry would, of course, in practice, precede the one shown above it, that is, a deposit must be received by the bank before items in it can be sent out for collection.

EXPENSE (22).—A general list of expenses has already been given. While taxes are frequently set up as a separate account, assume that in this bank they are handled through expense, and that the sum of $3,000 is paid therefor. The general ledger entries are:

Debit: Expense (22)	$3,000	
Credit: Cash (11)		$3,000

A similar entry would be made for all other types of expense with the description in each case on the entry ticket showing the character of the expense.

AUXILIARY RECORD OF EXPENSE.—It is advisable for the general bookkeeper to keep an auxiliary record of expense, preferably classified by kind, so that each item may be placed under its proper clas-

sification, as a basis for a detailed report of earnings and expenses. The total of the items in the auxiliary record should, of course, prove with the debit balance of the expense account. As previously explained, the expense account is closed semi-annually or more often, depending upon the system used in the undivided profits account. The closing entries have the undivided profits account.

INTEREST PAID ON DEPOSITS (23).—Charges to this account reflect the amount of credit given customers for interest on their deposits. Suppose that for the month ending June 30 interest on depositors' accounts amounted to $1,000. The general ledger entries covering this interest payment would be as follows:

Debit: Interest Paid on Deposits (23) $1,000
Credit: Due to Depositors (37)..... $1,000

Of course, the amounts credited to the various depositors' accounts would be shown in detail in the depositors' ledger.

BANKING HOUSE AND LOT (24).—There are, of course, many ways of acquiring real estate, but the detail of that cannot be dealt with here. To illustrate one way: suppose the bank buys outright its banking house and lot for $50,000, the general ledger entries would be:

Debit: Banking House and Lot (24)..$50,000
Credit: Cash (11) $50,000

THE ISSUANCE OF CAPITAL STOCK (25).—National and State laws vary as to the proportion of capital stock which must be paid in before commercial banks may open their doors for business. All require that part be paid in before opening. The general ledger entries, showing the payment by stockholders for the capital stock they have subscribed for, are as follows:

Debit: Cash (11) $250,000
  Credit: Capital Stock (25) $250,000

Two hundred and fifty thousand dollars is the amount of the capital stock of the imaginary bank with which we are dealing. If only 50% of the capital stock is paid in before the opening of business, the entries would be:

Debit: Subscription $250,000
  Credit: Capital Stock (25) (to cover the subscriptions of the various stockholders) $250,000

The entry required to record the receipt of cash for half of this would be:

Debit: Cash (11) $125,000
  Credit: Subscription $125,000

AUXILIARY RECORDS OF CAPITAL STOCK.—The more important auxiliary records are the stock ledger and the stock certificate book. The stock ledger is a book showing each stockholder's holdings. Columns are provided for increase and de-

crease, that is, credit and debit, just as for other accounts. A common form of ledger is the following:

Debit				Credit			
Date	No. of Shares	Ctf. Numbers	Par Value	Date	No. of Shares	Ctf. Numbers	Par Value

Each stockholder is credited with the amount of stock he has subscribed for, so that the total of all of the stockholders' holdings should equal the capital stock account on the general ledger. There might be a subscription ledger also, showing the amount due from each stockholder on his subscription.

THE STOCK CERTIFICATE BOOK.—This record, which is similar to that of a certificate of deposit book, contains the stubs of all stock certificates issued and also the supply of blank certificates not yet issued. Both the stubs and certificate proper would contain among other things the following: (1) Date issued; (2) Certificate number; (3) To whom issued; (4) Number of shares; and (5) Name of the bank. The cancelled certificates should be attached to the stubs. A certificate may be issued for any number of shares, and the total shares represented by the outstanding certificates should equal the par value of the capital stock.

SURPLUS TRANSACTIONS (26).—Surplus is acquired for the most part by the setting aside of profits for very unusual contingencies. Assume the

bank earned $20,000 during the six months ending June 30, and that the stockholders decided that $5,000 of that should go to the surplus account. The general ledger entries would be:

Debit: Undivided Profits $5,000
Credit: Surplus $5,000

UNDIVIDED PROFITS (27). — The undivided profits account was explained and illustrated in detail in a previous chapter and reference is made thereto in this connection. Losses on account of bad loans, bad checks, and the like are usually put through the undivided profits account.

DOMESTIC EXCHANGE (28).—Exchange is a charge made to cover the costs of collecting an item, including in that the interest delay in realizing cash on an out-of-town item for which immediate credit has been given. Assume a customer deposits over the receiving teller's window a $4,000 item drawn on a bank in some town in the exchange charge group; assume further that the charge is 1/20 of 1%, or $2. The entry on the general ledger to record the receipt of such a deposit would likely be:

Debit: Due from Banks — Collection A/C (21) $4,000
Credit: Customer $3,998
Credit: Domestic Exchange (28) ... 2

Some of the regular customers of a bank prefer to be charged once a month for exchange charges. The difference between this and the procedure explained is

that at the end of the month the customer will be charged for his exchange, or if he prefers he will remit for it. At the time of deposit under such an arrangement, the depositor would receive credit for the face of all items.

COMMISSIONS COLLECTED (29). — The items that would be placed in this account would depend upon the accounts of the bank. They might include service charges made in connection with the sale of bonds for a customer's account, or similar charges made for foreign and domestic checks sold to him, these checks drawn, of course, on other banks and used for the most part by travelers. Assume that the bank sells $4,000 Liberty Bonds for T. L. Arms at par, and that they credit his account for the proceeds, less commission which is ⅛ of 1%. The general ledger entries would be:

Debit: Cash (11)	$4,000	
Credit: Commissions Collected (29)		$ 5
Credit: Due to Depositors (37) (T. L. Arms on Depositors' Ledger)		3,995

INTEREST ON LOANS (30). — Interest on loans is collected at various periods and under various arrangements in accordance with the agreement reached with the customer. Assume that a time loan for $5,000 at 6% is paid at maturity. The general ledger entries resulting are:

Debit: Cash (11)	$5,300	
or		
Debit: Due to Depositors (37)	$5,300	

Credit: Loans (1)	$5,000
Credit: Interest on Loans (30)	300

Nothing has been said up to the present concerning the accruing of interest on loans. That is dealt with in another chapter. The control of interest income varies so much in different banks that it would scarcely be possible to go into that here. Something will be said about it, however, later.

DISCOUNT (31).—Discount is interest taken in advance. An illustration has been given of discounts collected in connection with the process of discounting a bill, but take as another the following: Webb & Company discounts a $6,000 ninety-day note of one of its customers, which as of the date of discount has sixty days to run. The sixty days is, of course, the time for which the bank extends credit on the note. The entries are as follows:

Debit: Bills Discounted (2)	$6,000	
Credit: Discount (31)		$ 60
Credit: Due to Depositors (37)		5,940
(The Webb Co. on the Depositors' Ledger)		

INTEREST ON INVESTMENTS (32).—Assume the bank clips and collects its six months' coupons on an investment of $10,000 American Telephone & Telegraph Consolidated 5's. The entries on receipt of the funds for the coupons are as follows:

Debit: Cash (11)	$250	
Credit: Interest on Investments (32)...		$250

BOND PROFITS (33). — Assume the bank sold its $10,000 American Telephone & Telegraphs at 98, having purchased them at 95. The general ledger entries showing the profit made, irrespective of accrued interest, are as follows:

Debit: Cash (11) $300
Credit: Bond Profits (33) $300

RESERVE FOR TAXES (34). — Ignoring rates of taxation, assume that the bank estimates that its taxes will be $2,400 for the ensuing year. At that rate it is advisable to set up each month a charge of $200 making for the year an accumulation of $2,400, which is the amount estimated to cover the taxes. The most satisfactory method of monthly entry to cover this allotment process is as follows:

Debit: Expense (22) $200
(Taxes on the auxiliary Expense Book)
Credit: Reserve for Taxes (34) $200

Of course, at the end of the year when, for purposes of illustration, the taxes are to be paid, the reserve account would amount to $2,400. If that is the exact amount of the tax to be paid, the entry covering the payment for the taxes is as follows:

Debit: Reserve for Taxes (34) $2,400
Credit: Cash (11) $2,400

An excess or deficiency in the reserve account would be taken care of by a credit or debit to undivided profits.

INCOME TAXATION.—Corporate income and auxiliary taxes have made the determination of taxable income of banks, as well as other corporations, a considerable problem. The frequent changes in law makes the problem complicated, so that it is advisable for a bank to keep auxiliary tax records of all of its income in order that when the time for a declaration of income for taxation purposes approaches, the problem of analysis is made simpler. Such auxiliary records should show the source and character of each item of income. Also, any income which is reapplied in reduction of an asset but on which tax has nevertheless been paid, should be distinctly marked or classified on the auxiliary record so that when the asset on which profits have been applied, such as a security, is itself sold, the bank may not be obliged to pay a tax on income twice. To illustrate: If $1,000 par of bonds purchased at 90, or at a cost of $900 drops in market value to $800 and the bank applies $150 profit from the sale of another investment, that would of course reduce the depreciated item from a book value of $900 to $750. That is below the new market. If the bond on which this $150 profit has been applied is later sold at $850 it might seem on the face that a $100 profit has been made, but in fact there has been a loss of $50. All such items should be shown on auxiliary records properly classified so that credit may be correctly taken on the income tax return.

RESERVE FOR DEPRECIATION ON BUILDING (35).—Substantially everything depreciates, and buildings are no exception, the rates vary-

ing according to the construction from 2% to 25% a year. Assume that this bank building costing $36,000 will have a life of thirty years: That would imply that it depreciates at the rate of $1,200 a year, or $100 per month. Good accounting would require that a charge of $100 per month be made to show this depreciation. That is done by the following general ledger entries as at the close of each month:

Debit: Expense (22) $100
(Classified as Depreciation in the Expense Book)
Credit: Reserve for Depreciation on Bldg. (35) $100

At this rate, at the end of the thirty-year period, there would be $36,000 in the reserve for depreciation account, and the grand total of profits would have been reduced by exactly that sum. Assume that the building is substantially worthless at that time and that it is destroyed to make room for another; the entries to show that situation should be in effect:

Debit: Reserve for Depreciation (35) $36,000
Credit: Banking House and Lot (24) $36,000

By virtue of the accumulation in the reserve for depreciation account of the $36,000 the bank's assets have been conserved to that same extent. Foreseeing the need for a new building, the directors would doubtless have invested in desirable securities to cover the new building cost. At the proper time these would

be disposed of to furnish cash for the new building which we will assume costs $50,000. The general ledger entries to cover the cost of the new building would be:

Debit: Banking House and Lot (24) . . $50,000
Credit: Cash (11) $50,000

CIRCULATING NOTES OUTSTANDING (36).—This account was explained, and the entries in it were illustrated under discussion of accounts No. 13 and No. 17 among the debit balances, so that there is no need of a repetition of these illustrations at this time.

DUE TO DEPOSITORS (37). — As illustrations have been given of this account throughout this chapter thus far, no entries are considered necessary here. Emphasis, however, is again placed on the point that each time the account "due to depositors" has been debited or credited, some individual account on the depositors' ledger has likewise been debited and credited for the same amount. In other words, the depositors' account on the general ledger is a control account varying in balance as the sum of the auxiliary or supporting accounts vary, and while summary entries are made in the control account, the principle of control is maintained nevertheless. Briefly summarizing the character of the debits made in the depositors' account we have those caused by maturing loans and discounts, checks drawn by the depositors, overdraft interest charges made, commissions, exchange and other service charges. The following are the

more general credits appearing in the depositors' account: Interest, proceeds of loans and discounts made, the proceeds of coupons collected for the account of the customer, credits for deposits of cash and checks, the proceeds of notes and drafts sent by the customer for collection, and the proceeds of securities sold for his account.

AUXILIARY RECORDS AND PROOF.—The depositors' ledger is dealt with in some detail in another chapter where its proof is also explained. Suffice it to say here that the total of deposits shown by the depositors' ledger must equal the total of the account "due to depositors" on the general ledger.

CERTIFIED CHECKS OUTSTANDING (38).—A certified check is an item which the bank has guaranteed to pay by virtue of deducting, at the time of presentation of the check for certification, the amount of the check from the depositor's account and setting it up in a special account called "certified checks outstanding." A certified check is very distinctly the liability of the bank. The entries made at the time of certification are as follows:

Debit: Due to Depositors (37) $2,000
  Credit: Certified Checks Outstanding
    (36) $2,000

An adequate record must be kept of the checks certified, and this is usually maintained by the paying teller in the form of a pad showing the numbers and the amounts of the checks certified, and of the accounts for whom the certifications are made. From

this record the deposit ledger bookkeepers make the entries in the customers' accounts after having marked the deposit at the time of certification so that no withdrawal can be made of the funds to be withheld. When the checks finally come in for payment by the bank they are checked off from the certified record and thus "killed." Open items on the certified record must always prove with the general ledger account.

CASHIER'S CHECKS OUTSTANDING (39).—Cashier's checks are issued by the bank for various payments. Among these are payments to customers of the proceeds of loans and discounts, payments made for the purchase of securities, and for various expenses of the bank. Assume that a bank buys $1,000 worth of office furniture and issues cashier's check No. 903 for it. The entry on the general ledger would be:

Debit: Expense (22) $1,000
  Credit: Cashier's Checks Outstanding
  (39) $1,000

AUXILIARY RECORD OF CASHIER'S CHECKS.—It is customary in the larger banks for the auditor, or for the official who has the auditor's function, to keep a record of the checks issued showing date issued, amount, check number and date paid. The open or unpaid items, of course, must prove with the general ledger. As soon as checks have been redeemed by the bank, the date paid is filled in opposite their amounts on this auxiliary record of the checks

issued. The general ledger entry upon payment of the cashier's check is:

Debit: Cashier's Checks Outstanding (39)
  Credit: Due to Depositors (37)
or
  Credit: Cash (11)

DEMAND CERTIFICATES OF DEPOSIT (40).—A certificate of deposit is a form issued by the bank on which it certifies that it has received from the depositor mentioned a certain sum, which is payable on demand with interest at a certain rate. The certificate is given to the depositor, and the stub retained by the bank shows substantially the same information. Both certificate and stub bear a number. The entries upon issuance of such a certificate are:

Debit: Cash (11)
  Credit: Demand Certificates of Deposit (40)

AUXILIARY RECORD.—An auxiliary account is usually kept by the general ledger clerk of demand certificates of deposit issued showing under debit, credit, and balance columns the issues and payments of these certificates. A descriptive column in such a record gives the name of the customer who holds the certificate. This auxiliary account should, of course, prove at all times with the general ledger account. Interest credits, of course, increase the balance of auxiliary and control accounts.

DIVIDENDS PAYABLE (41).—Various titles are used for the account showing dividends

which have been declared by the board of directors payable to the stockholders of the bank, but the foregoing title is considered a good one. At the time of declaration the general ledger entry will be as follows:

Debit: Undivided Profits (27)
  Credit: Dividends Payable (41)

Some banks prefer to set up also another account called dividend checks outstanding but that is not regarded as vital. Assume that checks have been issued to all of the stockholders of record as of the date of declaration. As these checks are paid or redeemed by the bank, the entries made in the general ledger are as follows:

Debit: Dividends Payable (41)
  Credit: Cash (11)
  or
  Credit: Due to Depositors (37)

An auxiliary dividend record is usually kept showing opposite each stockholder's name the number of shares and the amount of his dividend. The total of all of stockholders' dividend amounts should equal the balance of the account dividends payable. If a date paid column is added to the auxiliary dividend record, that proof may be maintained until all of the dividends have been entirely paid.

TIME CERTIFICATES OF DEPOSIT (42). —These are certificates of a time character issued by the bank similar in all but the maturity factor to de-

mand certificates of deposit. They are accounted for in the same manner so that there is no need for further illustration.

TIME DEPOSITS (43).—Time deposit transactions are simple. Assume that a firm leaves $15,000 with the bank under time deposit arrangement and that the bank agrees to pay interest on it at 3%, crediting interest every thirty days. The entries covering the original deposit are:

Debit: Cash (11) $15,000
(assuming cash was received)
Credit: Time Deposits (43) $15,000

An auxiliary time deposit ledger page would be set up for the depositor showing in the credit and balance columns the amount of the deposit together, of course, with date of deposit. These ledgers are of simple form, usually with date, description, debit, credit, and balance columns. On the date interest is credited to the account the entries would be as follows:

Debit: Interest Paid on Deposits (23)
Credit: Time Deposits (43)

Withdrawal of time deposits requires thirty days notice. A withdrawal entry will be just the reverse of the first of the foregoing entries. The balance of the time deposits ledger must, of course, always agree with the control account.

POSTAL SAVINGS DEPOSITS (44).—Previously these were explained as deposits of the trustees of the Postal Savings System, and as has been

previously stated, collateral is pledged to secure their repayment. The general ledger entries setting up such deposits are as follows:

Debit: Cash (11)
or
Debit: Reserve at Reserve Bank (10)
Credit: Postal Savings Deposits (44)

When deposits are withdrawn the collateral to them also may be withdrawn. The entries to record those transactions are simply the reverse of those already given. An auxiliary record similar to that explained under time certificates of deposit might well be used for these postal savings deposits showing simply under debit, credit, and balance columns the deposits and withdrawals by date, and also interest credits.

OVERS AND SHORTS (45).—This account is variously named in different banks. Some would call it shortage and overage of cash, but the term "overs and shorts" is considered a good title because in larger banks it embraces much more than cash itself. Deficiencies of debits which must be made up by charging this difference account are shorts; deciencies of credits conversely are overs. That is to say, in the latter case the assets are over the liabilities by the amount of the deficiency in credits. In such a case a credit must be made to the difference account. To illustrate: Assume that a depositor was given credit for $1,509 in a miscellaneous deposit consisting of checks and currency, but that a check he deposited was $67 instead of $69. The check was assumed to

have been $69 on account of a bad figure. The correct amount of the check was discovered only after the depositor had been given credit on the books. The general ledger entries to reflect the situation thus far are as follows:

Debit: Overs and Shorts (45)	$ 2	
Debit: Cash Items (14)	67	
Debit: Cash (11).....	1,440	
Credit: Due to Depositors (37)		$1,509

On the succeeding day the liquidation of this over and short entry would be accomplished as follows:

Debit: Due to Depositors (37)	$ 2	
Credit: Overs and Shorts (45).....		$ 2

AUXILIARY RECORD OF OVERS AND SHORTS.—It is well to operate two auxiliary books, one for overs and one for shorts, each showing in debit, credit, and balance columns the situation with respect to each item of difference and its disclosure. The difference between the balance of the one book and the other should equal the balance of the general ledger account.

Cash Bookkeeping and Proof Sheets

CASH BOOKKEEPING.—Cash bookkeeping in banks differs from that of commercial and industrial enterprises where cash is debited for receipts and credited for all dispositions. In banking an arithmetical process is used. In brief, at the commencement of the day's business there is in the vaults and tills a

certain quantity of cash as a part of the assets of the bank. During the day receipts and issues are tallied by the cash-handling departments, and the balance at the close of the day determined; that is, opening balance plus all receipts, less all payments equals closing balance. This closing figure is the same, of course, as that which would be arrived at by a strict bookkeeping debit and credit process but such a process would be cumbersome in a bank, where cash is the most active asset.

RECEIVING TELLER'S CASH TRANSACTIONS.—The receiving teller, as implied by his title, receives cash and cash items for credit to depositors' accounts. The cash items handled by the receiving tellers will be dealt with further on in this chapter. The cash which he receives is the point to be considered here. Starting at the opening of business with an empty till he accumulates coin and currency received from depositors throughout the day. His cash pad, or in a large bank the cash pads of the several receiving tellers, shows the total of cash which he should have in his till. This is simply a process of addition. Credits to customers' accounts put through by this teller are, of course, the offset to the cash received. Assume then for purposes of illustration that the receiving teller closes business June 30 with $10,000 cash on hand.

PAYING TELLER'S OPERATIONS.—The paying teller implies a bank where the paying operation is a function of a separate individual or department from that of receiving. Assume then that the

paying teller, who is the bank's cash custodian, starts business on the morning of June 29 with $70,000 on hand, which includes the entire bank's cash supply. To illustrate further, suppose that during the day the transactions of this teller were tabulated as follows:

Receipts		Issues	
From Correspondent Banks	$10,000	$15,000	On account of customers' payrolls
From Federal Reserve Bank	5,000	6,500	For checks cashed
From Receiving Teller	8,000	2,000	Money shipments to correspondents
		6,000	Deposits with Federal Reserve Bank

The foregoing, it is repeated, are the paying teller's transactions of receipt and issue on June 30. The $8,000 mentioned on the left as received from the receiving teller, let us assume, was a large deposit taken by the receiving teller subject to count, and immediately delivered to the paying teller and charged to him by the receiver. That means that the $8,000 would not be included in the receiving teller's cash figure.

MISCELLANEOUS CASH-HANDLING DEPARTMENTS.—The note teller and the foreign and trust departments in the larger banks frequently accumulate cash above any fund that they may currently keep, and these accumulations would, of course, have to be taken into consideration to obtain the closing cash figures for June 30. Assuming then that these various departments have accumulated the total of $1,500 in cash, the receipts and issues for the entire day's business would look like this:

Receipts		Issues	
Receiving Teller	$10,000	$29,500	Paying Teller
Paying Teller	23,000		
Other Department Receipts	1,500		
Total Receipts	$34,500	$29,500	Total Payments

THE PROOF OF THE DAY'S CASH.—Having shown the total receipts, and the total payments of cash, if we add the amount on hand at the opening of business to the receipts, and deduct the payments, the result will be the amount on hand as at the close of the day, the figures being as follows:

Amount on hand close of 6/29 or opening 6/30	$70,000
Add receipts 6/30	34,500
	$104,500
Deduct Payments 6/30	29,500
Closing cash figure for June 30	$75,000

The $75,000 is the cash figure which would appear in the general ledger trial balance opposite the word cash. It will be observed that by this method no detailed debits and credits of the item "cash" are shown on the general ledger, all detailed additions and subtractions having been made on simple proof pages in the various tellers' departments. With such a method, however, it is advisable for control purposes that the closing cash figures be reported by the various departments to the auditor, who should receive departmental or divisional proof sheets showing all of

the transactions in debit and credit form for the day. By a process of checking out the major figures of one department against another and the use of the closing cash figures from all departments and divisions, the auditor assures himself that bookkeeping has been correctly done. The closing cash figure, in this case $75,000, is then given by the auditor to the general bookkeeper who posts it in the balance column of cash on the general ledger. A text might be written on mechanisms of cash proof alone, but it is not felt that detail can be given here. The principle alone is intended to be shown. It should be remembered in this connection that the only adequate proof of the accuracy of cash is a count of it. In the smaller banks that is accomplished substantially each day by the chief teller or cashier by virtue of his determining the amount of daily cash and adding that to the sealed up vault supply. The total cash figures are frequently checked by the auditors, and in all banks, of course, by the bank examiners.

BANKS WITH RECEIVING AND PAYING FUNCTIONS COMBINED.—Many small banks, and some large, combine the activities of the receiving and paying tellers in one cage or in one department, but the principle already illustrated is not affected thereby. Any cash received by a teller which is in condition to pay out is simply issued when the need therefor arises, and it becomes a deduction on the teller's pad; the closing figure of the teller under this arrangement, or of the several tellers if there are more than one, would be the same as under the arrange-

ment previously explained. It should not be assumed in any case that a paying teller simply pays cash. The larger inter-city receipts of currency are handled by him, and in any case new issues of Federal Reserve or National bank notes would be handled and taken care of by him, so that the paying teller is in all banks both receiver and issuer of cash. Where the function of the receiving teller is combined with the first teller's work, it means in effect only that the latter's receipts are more itemized in form. That is substantially all, so far as cash is concerned. It is not intended, however, to depreciate the value of combining these functions, because economy can doubtless be effected in certain banks by that policy.

PROOF OF TRANSACTIONS.—Aside from the proofs of ledgers concerning which more will be said later, there are, depending upon the size of the bank, many departmental, sectional and block proofs that must be made in the course of the work of the day. Here again it is difficult to illustrate without becoming dogmatic on the one hand or diversely illustrative on the other. However, it is assumed that every clerk who deals with transactions realizes the necessity of dividing his day's work into batches or blocks for proof purposes, so that any existing difference between debits and credits in any minor division of the work may be readily disclosed and adjusted. This is the only alternative to that of completing the whole day's work before proof is obtained, at which time if a difference occurs, the entire day's work must be checked back.

DIVISION OR DEPARTMENT PROOFS.—Banks with ten or more employees are usually divided into two or more departments, each of which puts through figures to cover the day's work. Further, where there are two or more departments the work of one links up with that of the others; for example, the receiving teller who receives a deposit of checks and currency for the credit of a customer's account must, if the checks are drawn on other banks, either collect them himself or deliver them to some other department or individual to be collected. The latter is the course pursued in all but the very small banks. Just as soon as an employee releases a paper of value, such as a check or a deposit letter, he must charge or credit the person to whom the item is given, depending upon its nature, in order that his, the teller's, work may prove. In other words if the checks received and credited to Darwin & Company are to be collected by the note teller's department, the latter must be charged for them. That should be accomplished on the teller's proof which would show all cash and cash items received, and charged to others, on the debit side, and all credits given to depositors, on the credit side. As a simple illustration, assume that in addition to the $10,000 of cash received by the receiving teller on June 30 he has taken in checks on local and out-of-town banks to the extent of $5,000 and $4,000 respectively. Checks on local banks, let us assume, are to be assembled for clearing house purposes by the mail department, and the checks on out-of-town banks are to be dispatched by the transit department. As-

sume further that these checks and cash totaling $19,000 were deposited by five depositors, as follows:

J. A. Hecker	$3,000
James McGrath	1,000
C. S. Peet	4,000
A. G. Price	5,000
David Wolf	6,000

The teller's proof sheet would look like this:

Debits		Credits
$10,000	Cash	
	Departments	
5,000	Mail	
4,000	Transit	
	Deposits	
	J. A. Hecker	$3,000
	James McGrath	1,000
	C. S. Peet	4,000
	A. G. Price	5,000
	David Wolf	6,000
Total	$19,000	$19,000

The foregoing is a simple illustration of the teller's proof as of the close of business on June 30, assuming that he had no more transactions than those given. Actually there would be more departments and more space allotted for interdepartment charges. The

closing cash, it will be noted, is not shown as charged to the paying teller, which would indicate that it was not turned over to him as of the close of business on June 30. If it had been, he would have been charged for it. That brings out a custom in banking of permitting the receiving teller to retain custody of his closing cash until the following morning at the opening of business. The point involved is that the receiving teller could scarcely operate until late hours and yet deliver his cash to the paying teller at the last moment. There would be no particular benefit from that because the funds or the currency could not be assorted and properly classified on the same day anyway. In the illustration given under paying tellers operations in an earlier part of this chapter $8,000 was shown to be received from the receiving teller. That transaction was left out of this receiving teller's proof shown, for the sake of simplicity.

OTHER DEPARTMENT PROOFS.—Each department or division operates a proof similar to the one shown in the last paragraph, so that the mail and transit departments, which would receive the $5,000 and $4,000 worth of checks respectively, would each credit the receiving teller for the items they receive. The offsetting charge of the mail department would be the outgoing exchanges, while the offsetting charge on the transit department's sheet would be "due from Federal Reserve bank-collection account" or "due from other banks—collection account" on the general ledger. Of course, provision should be made on the various proof sheets for general ledger debits and credits

as well as for those of interdepartment or deposit ledger character. As was said, in the larger banks the auditor should maintain a summarized proof of all of the departments and transactions of the bank. He accomplishes this by abstracting cash and general ledger control figures from all of the department sheets which are routed to him. The auditor's determination of the closing cash figure for the bank is incident to his control proof. It should be apparent that a complete auditor's recap proof of this character is a highly desirable control mechanism because it either assures this accounting authority that the books are correct or it reflects the differences resulting from the day's business.

THE CLOSING CASH FIGURE ON THE PROOF.—Early in this chapter it was stated that bank cash bookkeeping was different from that of commercial or industrial enterprises where debits and credits to cash are handled like those for any other account. In banking, in order that the teller or department maintaining the cash proof may close his day's work with equal debits and credits, which is the primary test of proof, it is necessary that the closing cash of the previous day be entered as a credit to cash on the opening of business the following day. This follows from the rule that the closing cash figure of the current day must be the total cash on hand; otherwise the day's transactions of debit and credit would reflect simply the receipts and issues of the day in question. To illustrate the condition where the closing cash of the previous day is not used in the

figures: Suppose the bank receives $5,000 during the day and pays out $4,000. Then the closing cash figure would be $1,000. That, however, would not be the entire supply of cash at the bank. If the desire is that the entire closing supply of the bank be shown to the left of cash, the teller must obviously start his day's work with cash credited for the closing figure of the previous day. That automatically permits using the entire closing supply on the left. Pursuing our illustration, $5,000 receipts and $4,000 issues leaving a net increase of $1,000, if the closing cash of the night before were $74,000 and that were placed to the right of the cash on the current day, obviously $75,000 would be the closing figure under that arrangement.

CHAPTER XIII

Bank Ledgers and Department Bookkeeping

DEFINITION AND FORM OF A DEPOSITORS' LEDGER.—In this ledger are usually kept the accounts of all of the depositors of the bank. In commercial banks only demand deposits are kept in this record, such time deposits as are carried being kept in the auxiliary section of the general ledger usually. The depositors' ledger may be divided into as many sections as the volume of work demands. In the larger city banks there are usually two control demand accounts on the general ledger, one for bank deposits and the other for individuals and firms. In the trial balance already explained only one such account was used on the general ledger. Various forms of deposit ledgers are used, depending largely upon whether the ledger is hand or machine posted. Under any system, however, columns are provided for debits and credits, and usually for balance. The Boston or progressive type is commonly used, the accounts being listed down the middle of each page of the ledger, and the days progressing across from left to right.

The illustration is a section of one page of the open Boston ledger. Assuming that it is the left page of the open book, the dates would continue across the right side page, making in this case eight days to the

June 29			June 30			Name of Account	July 1			July 2		
Dr.	Cr.	Bal.	Dr.	Cr.	Bal.		Dr.	Cr.	Bal.	Dr.	Cr.	Bal.
						Hecker, J. A.						
						McGrath, James						
						Peet, C. S.						
						Price, A. C.						
						Wolf, David						

full page. Suppose that one bookkeeper kept three hundred accounts. With twenty-five accounts to the page, a filler consisting of twelve complete pages would last eight days, after which balances would be transferred to a new filler made up usually by the printer with the names of the depositors printed therein. Blank spaces, of course, are left for new accounts. At the foot of each column are provided blank spaces for daily footings of the ledger pages. As the balances of the accounts on a given page appear directly above each other, the proof is simplified, overdraft balances being shown in red and credit balances in black in the balance column. Another form of ledger which is typical of that used in the smaller commercial banks is shown on another page.

DEBIT AND CREDIT POSTING MEDIUMS. —Debits to accounts appearing in the demand deposit ledger would consist of checks, drafts drawn against the depositor and payable by his bank, and debit tickets of all kinds covering among other things overdraft interest, maturing loans, exchange charges, and certifications. Credits to accounts consist for the most part of deposit tickets, mail deposit letters received from out-of-town depositors, and credit tickets of various kinds covering proceeds of securities sold, loans made, monthly interest credits and the like. These debits and credits come from all departments and divisions of the bank.

PROOFS WITH THE GENERAL LEDGER. —As at the close of business each day, each depositor's ledger or individual ledger should prove with

Sheet No..... Account No.....

Name

Date	Checks in Detail	Total Checks	Memo.	Deposits	Balance	—

Many ledgers omit the "checks in detail" and still others use but one column for both deposits and balance.

the general ledger. In order that differences may be more readily disclosed, each ledger clerk usually proves with a separate control account on the general ledger. The proof is as follows: The total of credit balances on a given ledger, less the overdrafts, should equal the due to depositors account on the general ledger. It is customary for deposit ledger clerks to test the accuracy of their own work before making up this proof, and a common way of doing that is as follows: To the net deposit figures as at the close of the previous day are added all credits; the clerk then deducts from the resulting figure the total debits for the current day; the balance remaining should be the same as the total credit balances, less debit balances, for the current day.

INTEREST HOLD-OUTS.—It is customary among banks which pay interest on demand deposits to pay interest on only what is called the cash balance of a customer's account. This can best be explained by illustration. If a customer deposits $500 of cash on June 25 and leaves it until June 30, he is entitled to five days' interest, and this is computed usually by adding five 500's, that is, $500 for each of five days, making interest on $2,500 for one day. However, if instead of cash a customer deposits checks which it requires two days to collect, he would get no interest on his deposit for the first two days on the principle that a bank cannot pay interest on money that it does not have. While it credits the depositor at once for $500 of checks received, interest does not start to accrue on the deposit until it has

become a matter of available cash in the bank's possession. Assuming, then, that $500 worth of checks requiring two days to collect were deposited on June 25, the interest from June 25 to June 30 would be the equivalent of only $1,500 for one day, i. e., $500 for three days. To provide a means of withholding interest credit in such cases, the receiving teller is instructed to indicate on each deposit, by notation, the number of days a cash item must be withheld from the interest balance. Such notations are guides to the ledger clerks who place the same notations to the right of the accounts on their ledger, so that when taking off interest figures for each day the amount to be withheld from the actual balance is shown to the right of it. That makes the determination of the interest balance for each day simple. All the clerk needs to do is to deduct from the actual balance the total of the small figure notations.

STATEMENTS OF ACCOUNT OR ACCOUNTS CURRENT.—It is the custom in commercial banking to render statements of account monthly, or more frequently, depending upon the wishes of the customer. A statement of account is usually a simple continuous and daily posted record, showing in detail all debits and credits to accounts, and also the daily balance. Dates and description of items are shown as well. This permits the depositor to check the bank's figures with his own, and to investigate any differences. Statements are posted from the same debits and credits which are used by the deposit ledger clerks, though in the larger banks

the latter are given certain figures in recap form. In order to insure that statements and ledgers have been accurately posted, daily comparisons are made between the two and any errors discovered are adjusted.

STATEMENT OF ACCOUNT

IN ACCOUNT WITH THE INSTITUTE STATE BANK
OF STATETOWN

Please examine and report on this account as soon as convenient

DEBITS				CREDITS							
		CHECKS PAID				Balance					
						DEPOSITS					

FORM OF RECEIPT FOR STATEMENT OF ACCOUNT

.....

Received of THE INSTITUTE STATE BANK OF STATETOWN, Statement of my account to .....192 with.....Vouchers showing Credit Balance of $..... I hereby agree to examine same carefully, and if not correct give notice to an officer of said bank and make all reclamations within ten days.

.....

Statetown 192

Please sign this voucher receipt and return same to us.

THE DUTIES OF A DEPOSIT LEDGER CLERK.—They cannot all be itemized, but the more important ones are usually as follows:

1. To post debits and credits;
2. To watch checks for irregularities (in larger banks this is done by a separate department);
3. To prove his ledger and adjust differences;
4. To report overdrafts;
5. To determine daily interest balances and post the interest statement (the interest statement is simply a summary of the interest balances, sent to the customer for his information and used by the

bank in determining the interest credited or debited to an account);

6. To open and close accounts;
7. To post average balance cards which are statistical records, usually for the officers' benefit;
8. To check his debits and credits with customers' statements;
9. To close old and open new ledgers.

THE GENERAL LEDGER EXPLAINED.—The general ledger entries have been explained in detail in a preceding chapter so that little need be said here as to entries. The forms for general ledgers vary greatly in different banks, depending again upon whether mechanical or hand process is used in posting. If mechanical posting is used it is customary to have a separate page for each account, but for hand posting the Boston style of ledger explained in connection with depositors' bookkeeping, is used. It is customary among larger banks to keep an asset ledger and a liability ledger, the accounts in each book appearing down the middle of the page in sequence, substantially as shown in the trial balance already given, having spaces provided under balance columns so that agreement between assets and liabilities may readily be determined. The general ledger is usually in bound form, one book covering from a half year to several years of work.

POSTING MEDIUMS.—The size of the bank and the system used would determine the character

of the posting mediums. Years ago journal sheets were made up, offsetting debits and credits appearing on them. These were sent to the ledger clerks just as journal books might be turned over to ledger clerks, for posting purposes; but of late single item debit and credit tickets have increased in use because of their flexibility. By single item is meant a separate ticket for each debit and a separate ticket for each credit. These tickets are routed by clerks of original entry, either directly or through a control proof, to the general bookkeeper who posts them as the day's business proceeds. In the larger banks credits and debits to depositors' accounts are usually summarized in some form by the auditor before being given to the general bookkeeper. Paid cashier's checks may be posted as debits to the cashier's check account so that no tickets are needed for such items. Certified checks may be handled in the same way. It should not be assumed that all debits and credits received by the bookkeeper are posted on his ledgers in detail. As the space for each account is limited, it is customary for the general bookkeeper to operate posting sheets on which the debits and credits are itemized each day under name of account. The resulting debit and credit totals under an arrangement such as described are carried to the general ledger.

DAILY TRIAL BALANCE OR STATEMENT OF CONDITION.—The trial balance has been exhibited in a previous chapter. It is simply a list on the one side (left) of debit balances, and on

the other (right) of credit balances, the left being called assets and the right, liabilities. The debit and credit balances are taken, of course, after all posting for the day has been completed. It is scarcely correct to apply the word "assets" to all the debit balances of this daily trial balance and the word "liabilities" to all the credit balances, because there are profit and loss items included in both of these balances.

SEPARATE REPORTS MADE BY GENERAL BOOKKEEPER.—The general bookkeeper's functions are highly important and varied. In addition to posting and proving his ledger and taking off the daily trial balance, he must determine the adequacy of the bank's reserve. Federal Reserve banks provide member banks with a form to be used in computing reserve. This form is substantially as follows:

NET DEMAND DEPOSITS

1. Deposits payable within thirty days, not including
   (a) U. S. Government deposits
   (b) Certified checks outstanding
   (c) Cashier's checks outstanding $.....

2. Balance due to banks other than Federal Reserve banks $.....
3. Cashier's checks outstanding $.....
4. Certified checks outstanding $.....

Total $.....

Less

Deductions of the following items permitted only from the total of items 2, 3 and 4. Should the total of items 5, 6, 7 and 8 exceed the total of items 2, 3 and 4, both groups must be omitted from the calculation.

5. Balances due from banks other than Federal Reserve banks $.....
6. Items with Federal Reserve bank in process of collection $.....
7. Exchanges for clearing house $.....
8. Checks on other banks in the same place $.....

Total deduction (Items 5, 6, 7 and 8)	$.....	
9. Net balance due to banks		$.....
10. Total net demand deposits (Items 1 and 9)		$.....

TIME DEPOSITS

11. Savings accounts (subject to not less than thirty days' notice before payment)	$.....	
12. Certificates of deposit (subject to not less than thirty days' notice before payment)	$.....	
13. Other deposits payable only after thirty days	$.....	
14. Postal savings deposits	$.....	
15. Total time deposits (Items 11, 12, 13 and 14)		$.....

The reserve is computed on the basis of items 10 and 15. Depending upon whether country, reserve city, or central reserve city bank, the percentage of reserve required for demand deposits is 7, 10, or 13. The percentage of reserve required on time deposits is 3%. Having ascertained the total of each of these deposits and the reserve required on them, the total figure obtained should be compared with the reserve shown to be on hand in the account due from Reserve bank. Member banks are taxed on their deficiency of reserve.

SPECIAL REPORTS CONTINUED.—The internal reports required by bookkeepers for the benefit of officers and directors vary with the bank, but a very important daily report would be that made for the benefit of loaning officers, showing the amount of loans, investments, deposits and reserve. That information, taken in consideration with the clearing house balance of the current day, furnishes a guide in making additional loans or in calling those of a demand character. Clearing houses usually desire weekly reports of condition, and member banks are also required to give weekly condition reports to the district Federal Reserve bank. In addition to these there are various reports, daily, weekly, and monthly, to State, National, and Federal Reserve bank authorities which frequently change in character and which scarcely call for itemization here. The more progressive banks desire earnings and expense reports monthly, irrespective of the closing period. Such reports furnish those in authority with highly desirable information regarding the progress of the institution.

REPORTS TO COMPTROLLER AND STATE SUPERINTENDENT.—National banks are required to render on call five statements of condition during the year to the Comptroller of the Currency. State banks are required in most States to render similar quarterly reports to the Superintendent of Banks. These reports are detailed statements of assets and liabilities as of the close of business on the date of call. On account of the arrangement of

items desired, they frequently call for such special analysis of general ledger figures as will yield the data desired. It is advisable that banks set up their accounts and account titles in general in accordance with the accounts appearing on State or National forms so that the information called for may be given promptly. All of the more important items appearing on these reports, especially the report of the Comptroller of the Currency, must be scheduled separately so as to show details with respect to them. Exhibits of these reports would be more confusing than desirable, as items of special nature which are not found in most banks appear therein.

CONTINGENT ACCOUNTS.—A contingent liability is a liability of a secondary nature which becomes actual usually on the occurrence of some act or on the default of another. To illustrate: If a bank rediscounts paper with the Federal Reserve bank, or for that matter with any other bank, which it has carried among its assets, the paper is indorsed by the bank which tenders it for rediscount. In case the payer of the paper defaults, recourse is had to the indorser. In order to show that contingent or conditional liability, when a bank rediscounts paper it usually sets up a liability account called "rediscounts." Contingent assets are of similar character, except, of course, that they are secondary assets which may become actual only on the default of some one or the occurrence of some act. Many banks, when rediscounting, set up contingent assets to offset the contingent liability previously men-

tioned. The entries with respect to rediscounts will be brought out further under discussion of borrowings from Federal Reserve bank.

DEFINITION OF COLLECTION ITEMS.—A cardinal distinction in banking is that between so-called cash items and collection items. Cash items are those for which immediate book credit is given to the depositing customers before the act of collection. Collection items are those which are credited to the owners only when they are paid. The entries for cash items have been brought out throughout the text, but nothing has been said about auxiliary collection record bookkeeping. The student should bear in mind that collection items do not enter the account of the bank until they are paid and proceeds for them received.

COLLECTION REGISTERS.—Until recently, and to a considerable extent at present, it was customary in banks to record all collections in bound registers in the exact order in which they arrived, numbers being assigned in sequence in accordance with the entries down the page. A common form of register is one having columns as follows: (1) Our number; (2) customer's number or letter; (3) of whom received; (4) drawee or maker; (5) indorser; (6) where payable; (7) date of the item; (8) time or tenor; (9) due date; (10) amount; (11) to whom sent; (12) remarks. The items themselves are "tickled" by maturity date, and if drawn on out-of-town firms are sent away several days before maturity. Items to be paid locally, of course, are pre-

sented for payment on their maturity dates. Items which must be accepted before the maturity can be established are sent out promptly for acceptance, and then "tickled" in accordance with this procedure. When proceeds are received, the funds are debited and the owner credited on advice.

COLLECTION TICKETS.—Of late, manifold tickets have become popular, especially for collections, both incoming and outgoing. By manifold tickets is meant a set of from several to fifteen copies made in one writing, the various copies of which are used for different purposes — for letters of enclosure, for follow-up purposes, for cross-reference, for indexing, for advices of maturity, and for debits and credits to accounts. A common form of collection ticket for outgoing items is one consisting of the following copies:

1. A remittance letter enclosing the item;
2. An acknowledgment copy to be signed and returned by the collector;
3. A department record filed usually by serial number and stamped "paid" when the item has been paid at maturity;
4. An owner's record filed under the name of the customer who sent the item in for collection;
5. A debit or charge ticket to be used when the collector desires that his account be charged for the item which has been sent to him for collection;

6. A credit ticket to be used for the purpose of crediting the owner's account when funds are received for the item (collection charges are frequently deducted from this credit and a separate credit to the exchange or the commissions account made at that time);
7. A tracer copy "tickled" by follow-up date (this copy is most necessary in foreign country collections);
8. A copy to be filed by name of collector, which is very useful in connection with customers' inquiries concerning items.

The ticket arrangement has the advantage of flexibility and of economy, because substantially all writing in connection with an item is done upon its receipt in one operation. Debit and credit tickets are, of course, filed in "suspense" until the proceeds of the item come in. The data appearing on all copies of these collection tickets is much the same as that already given for the register, except that special instructions are also given to the collector, such as instructions regarding protest and delivery of any attached documents.

RECONCILIATION OF ACCOUNTS.—Banks having accounts with other banks find it necessary to make frequent reconciliations; that is, they must check the figures of their correspondent's account, as shown in the statement, with their own books. This process is especially necessary where the two banks are located in different cities and

where their transactions with each other are numerous. It is obvious that under such conditions the debit balance of the account shown for example by this bank in the account "Due from Tenth National Bank, New York," will not be the same at a given moment as the credit balance shown to be due this bank on the New York bank's books. This is on account of the items in transit for which one has been charged, and for which the other has not as of a given date been credited, or vice versa. In other words, as at the close of business June 30:

A. Our balance according to our books, plus
B. Items for which they credit us, but which we do not as of June 30 charge, minus
C. Items for which they debit our account, but which we do not credit, equals
X. Our balance according to their books, plus
Y. Our "in transit" debits which they do not credit, less
Z. Items which we credit, but which they do not debit.

This seems complicated, but it will be clear if it is taken at first in simpler form. Assume that all entries originate with our bank, that is, that no debits or credits are made by the New York bank on their own books until they are instructed by our bank to do so. That situation may be illustrated thus:

If A, The debit balance on our books equalled $100

and Y, Items which we had charged and which they had not credited us for were $40,
and Z, Our credits which they have not yet received were $30,
thus A, $100 less Y $40, plus Z $30 would equal $90,

and $90 would be X, the credit balance on their books according to their statement. This must be obvious because our debit balance must have been recently increased by

Y. which are debit items
and
decreased by Z credit items
and

if Y and Z have not as yet reached the New York bank's books, it must be proper, in order to ascertain what their balance should be, to take Y and Z out again. That is done by the following:

A	$100
Less Y	40
	$60
+ Z	30
	$90

This $90 must be X, namely the balance of the New York bank's books. So then we have the simple rule that:

$$A - Y + Z = X$$

or

$$A = X + Y - Z$$

In accordance with the old arithmetic rule if an item is transferred from one side of the equality sign to the other, its plus or minus sign must change.

DEVELOPMENT OF THE RECONCILEMENT FORM.—In the illustration just given, items B and C were omitted for simplicity's sake, but a little application of the same line of thought will prove the original equation given, namely, that A plus B minus C equals X plus Y minus Z, or A plus B plus Z equals X plus Y plus C. In the standard reconcilement form the above is shown in this manner:

The total of the left side figures on the reconcilement should equal the total of the right, and that is what is meant by reconcilement of accounts. Of course, what appears on the right of the form illustrated may be placed on the left and vice versa, but that is not material. The small columns headed "date since debited" and "date since credited" are for the purpose of indicating the dates on which the exceptional items appearing on the reconcilement have actually been debited or credited on this bank's books or that of its correspondent, as the case may require. That is what constitutes the follow-up on the exceptions.

BORROWINGS FROM FEDERAL RESERVE BANK.—Various collateral is used by member banks in their borrowings from the Federal

SPECIMEN RECONCILEMENT STATEMENT

			Date since debited				Date since credited
					Aug. 1, 1922		
A. Our debit balance our books.....	$14,332	72		X. Our credit balance	$10,926	30	
B. They credit, we do not debit:				Y. We debit, they do not credit:			
Interest on our account	75	00		Collection, July 16	50	00	
Z. Items which we credit, they do not debit:				Our remittance letters to you in transit:			
Draft we drew No. 1624	425	00		July 29.....	1,627	10	
Draft we drew No. 1625	226	10		July 30.....	2,541	16	
Note, Jones, July 30	100	00		C. They debit, we do not credit:			
				Returned item, July 28.....	14	26	
	$15,158	82			$15,158	82	

Reserve bank. These borrowings are of two kinds, those classified by member banks as bills payable and those called rediscounts. Under the bills payable arrangement commercial or agricultural paper, Liberty Loans supported by their collateral, or Liberty Bonds themselves are pledged as collateral to loans at the Reserve bank. The period under Federal Reserve regulations has been fifteen days. A note is given by the member bank signifying that it will repay its obligation at the end of fifteen days. During the stringency of 1921 at the expiration of the fifteen-day period new notes were frequently given so as to extend the loan. To illustrate the entries for such a transaction, assume that $10,000 of Liberty Loans secured by Liberty Bonds are delivered to the Federal Reserve bank as collateral for a fifteen-day loan. As the Reserve banks always take their interest in advance, the entries would be as follows:

Debit: Time Loans Pledged with Federal Reserve Bank.	$10,000	
Credit: Time Loans....		$10,000
also		
Debit: Interest Paid on Money Borrowed	$ 50	
Debit: Federal Reserve Bank	9,950	
Credit: Bills Payable...		$10,000

On maturity these entries would be reversed and the collateral would be returned. Of course, there would be no credit to "interest paid" because that

item was the cost of borrowing. Some banks prefer to omit entirely the first entry just given, but it is considered better practice to use it.

REDISCOUNTS WITH FEDERAL RESERVE BANK.—Paper rediscounted at the Federal Reserve bank should not be assumed to be only that discounted by the member bank; in fact, in the past the banks have regularly used Liberty Loans for rediscount purposes. The distinction between bills payable and rediscounts is that under the latter classification the notes are discounted to maturity by the Reserve bank, and the interest for the full time of the interest bearing notes is added to the face. For example: Assume that loans with a face amount of $15,000, with interest to maturity for $300, are rediscounted with Reserve bank. The entries which should be made are as follows:

Debit: Interest Paid on Money Borrowed	$ 200	
Debit: Federal Reserve Bank	15,100	
Credit: Rediscounts with Federal Reserve Bank.		$15,300

In these illustrations it was assumed that credit was desired by the member bank in its reserve account, but a member bank may take Federal Reserve notes instead of book credit if it desires.

TRUST DEPARTMENT BOOKKEEPING.—Of late many commercial banks, especially National, have established trust departments. Through their trust departments banks frequently act as stock

registrars so as to insure that when stock is transferred from the name of one to that of another, the old stock is cancelled and that no more new stock has been issued than authorized. They also act as transfer agents; that is, they fill out the new stock certificates in the name of the new holder in exchange for the old certificates which are turned in. They act as corporate trustees under reorganization agreements; this involves their handling all the old and new bonds issued, and the work of changing denominations from small to large. They act as trustees for individuals; that is, they hold in trust or for the benefit of others. They receive trust deposits of trust funds. And they hold securities for beneficiaries, collecting the income on them and crediting the beneficiaries' accounts or remitting, as the case may require. Many trust departments also maintain safe-keeping vaults in which are kept customers' securities and other valuables, and they perform various tax services, especially under income tax law. The foregoing is intended only as a brief indication of trust functions. The trust fund ledger might well be explained. It is usually a rather large record with loose-leaf sheets devoted to the various estates, the funds of which are being held in trust for beneficiaries. A typical form of trust fund ledger sheet is the following:

DEBIT				CREDIT			
Date	Description	Principal	Income	Date	Description	Principal	Income

The deposit of funds received for a given estate are entered in the money column headed "principal" on the credit side of the sheet for that estate. Interest credits are entered under "income," also on the credit side. Reductions of the funds of the trust of either principal or income are entered on the debit side in the proper column, either principal or income. The sum total of net credits of all funds in the trust fund ledger must equal at any time the trust fund account on the general ledger of the bank. In determining the net balance due under a trust, the debit "principal" and "income" columns are deducted from the credit columns.

TRUST DEPARTMENT INCOME. — Here again the income would be determined by the nature of the business transacted, but the common forms of income are charges made for income tax reports rendered, service charges for the safe keeping of securities, commission charges for registration of stocks, commissions for the service of coupon payment, and so on. These items would be credited to trust fund commission account kept on the general ledger of the bank. It should be observed that the trust funds received through a trust department go to increase the available funds of the bank reflected in cash and reserve.

CUSTODY DEPARTMENT BOOKKEEPING.—Most banks maintain some form of customers' securities service for the purpose of safekeeping any securities that customers may feel inclined to leave with them, not as collateral, but simply as deposits of

securities. This is a common service done by banks for their customers, but it involves not only recording and safely keeping the securities, but looking after their transfer when necessary, and the collection of any coupons and dividends which may accrue on them. Owing to the value of the property handled and the importance of following up for the customers' benefit any security matters which may require it, good records for this business are essential.

REGISTERS FOR CUSTOMERS' SECURITIES.—All customers' securities received are usually registered on blotters or journals giving generally:

Date
Security numbers
Par value
Description
From whom received
For whose account
Disposition.

All securities removed from vaults are likewise registered, usually on different registers, giving essentially the same information, except that they would show to whom delivered instead of from whom received, and so on. From these registers or journals, postings are made to ledgers and cross reference security index cards which will be explained.

SECURITIES LEDGERS.—Many banks use very large ledgers with a page or more for each customer and with spaces on each ledger page for ten to fifteen securities. The vertical columns on such ledger pages are usually something as follows:

Date
Security numbers
Received (Par value of Securities received)
Withdrawn (Quantity withdrawn)
Balance

In this ledger, securities are usually given unit values, one unit for each share of stock or fraction thereof, and one unit for each dollar par value of bonds. In other words, one share of stock would be one unit and a $1,000 bond would comprise 1,000 units. Market value is ignored on this record. A better ledger record is probably that on which each security is given a separate page. This is epecially true where many of the accounts have a large variety of securities, as it is well always to have securities kept alphabetically under the customers' name; otherwise the record for each security is not so accessible. Under either arrangement, of course, all receipts are entered in the received column and all withdrawals of securities are entered in the withdrawn column, the balance on hand being the difference between the two.

CROSS REFERENCE CARDS.—For dividend and coupon payable dates as well as for other cross reference purposes, a card index is usually kept of customers' securities, classified under customer's name and name of security. In other words, at the top of the card the name of a certain security would appear and on the card would appear the names of all customers who own that particular issue. In many banks these cards also bear date tabs such as January-July, February-August, indicating that the coupons

or dividends are paid during those months. This enables clerks to go over the card file shortly before the maturity dates, and to pick up all cards representing securities on which coupons must be clipped. This enables the bank to send out the coupons sufficiently in advance of the maturity dates to insure regular payment.

DEPOSIT AND WITHDRAWAL PROCEDURE.—It is considered advisable to say something concerning withdrawal procedure in connection with safekeeping securities. In the larger banks, a consecutively numbered deposit form is used on which are recorded all securities which must be deposited in the vault. This deposit ticket is usually approved by an officer as well as a department head and then taken with the securities, in proper custody, to the vault where a vault official determines the agreement between the deposit ticket and securities before placing the latter in strong boxes. This, of course, is the procedure in the larger banks. The deposit ticket, authenticated by the vault official, is deposited by him in the auditor's box. From the vault deposit slip the auditor assures himself daily that all incoming special deposits have been properly deposited and recorded. Withdrawals of securities are handled also on withdrawal sheets or slips properly approved by officers of the bank. Before access can be had to vaults, an authoritative withdrawal form should be given to the vault custodian. That official usually verifies the amount withdrawn, signs the withdrawal form and turns it over to the auditor. This insures

complete control. Some auditing departments in the larger banks keep duplicate records of all securities held for customers, these records being posted from the deposit and withdrawal slips.

BOOKKEEPING IN CONNECTION WITH COUPON PAYMENT.—Most country banks are concerned only indirectly with coupon payments. That is, the payment of coupons and maturing bonds is restricted chiefly to the large city banks, but all banks are concerned with the collection of bond coupons. Bond coupons come to the paying agents in the larger cities from almost every conceivable source, being transmitted principally by local bankers who either receive them directly from customers or clip them from the customers' security holdings. Corporations, either public or private, which issue bonds, usually decide in advance upon one or more paying agents located as has been said, in the larger centers.

COUPON FUND LEDGER.—All deposits received by corporations are carried in the coupon fund ledger, a page or more, as may be required, being kept for each account. The ledger usually calls for:

Name of issuing corporation
Description of security including coupon maturity dates
Date
Deposits received
Number of coupons and bonds paid
Amount paid
Balance
Remarks

The amount of a deposit is carried into the balance column and all coupons and bonds redeemed are entered in the amount paid column. The balance column shows at all times the funds left in each account, and there is usually a separate account for each issue of bonds.

COUPON FUND ACCOUNT.—On the general ledger of a bank there should be a coupon fund account representing the total of the funds received and on hand for coupon payment and bond redemption purposes. The grand total of the figures in the balance columns of all the accounts in the coupon fund ledger should equal the control account on the general ledger of the bank.

COUPON CHECKS.—Coupons and bonds are usually paid by check. They are paid, of course, only after careful scrutiny. Coupons taken from stolen or lost securities, others on which stops have been placed, and also those which have not yet matured, should not, of course, be paid. The checks which are issued usually are for credit to the cashier's checks outstanding account or to a special account called "coupon payments," the balance of which represents at all times the outstanding checks. All coupon checks finally paid are charged to this liability account called "coupon payments," or if special checks are not used for the purpose, to cashier's checks account.

FOREIGN DEPARTMENT BOOKKEEPING.—Foreign banking business is done for the most part through accounts carried with the banks abroad in their currencies. Of course, the foreign

banks find need for accounts in dollars in America so that they keep dollars on deposit with American banks. All that can be given here is a brief introduction to foreign exchange bookkeeping. The trial balance which was exhibited in a preceding chapter does not provide accounts for foreign bookkeeping, but such accounts will be shown in connection with foreign department entries at this point. Assume that the foreign exchange business of this bank is restricted to the purchase and sale of sterling currency; purchase and sale of sterling exchange, by which is meant the purchase and sale of portions of bank balances abroad; advancement of funds on foreign bills which are sent abroad for collection; and to the issuance of dollar acceptance credits. The above items are indicative of the major transactions in most foreign departments. To illustrate a purchase of foreign exchange: Suppose a cable transfer for £10,000 sterling was purchased at the rate of $4.50 for the purpose of setting up a foreign bank balance with Barclays' Bank, Ltd., London. The entry covering that transaction would be:

Debit: Due from Foreign Banks and Bankers.....	$45,000	
Credit: Cash		
or		
Credit: Cashier's Checks		$45,000

In addition to the debit which is for the general ledger of the bank, there would be a departmental entry charging Barclays' Bank with £10,000

sterling and $45,000. The debit side of the foreign bank account would look something like this:

BARCLAYS' BANK, LTD., LONDON

Debit Side

DATE		DESCRIPTION	FOREIGN AMOUNT	VALUE DATE	DOLLAR AMOUNT
June	30	Cable Transfer	£10,000	7/1	$45,000

The value date mentioned is the estimated date on which the £10,000 sterling will be placed to the credit of our account in the London bank. Assume further that a cable transfer sale was made on the same date of £5,000 sterling at the rate of $4.60. That item would appear on the credit side as follows:

Credit Side

DATE		DESCRIPTION	FOREIGN AMOUNT	VALUE DATE	DOLLAR AMOUNT
June	30	Cable Transfer	£5,000	7/1	$23,000

From the foregoing it would appear that ten cents per pound was made on the sale. In practice such a difference between purchase and sale rates would seldom exist. The illustration is given to indicate that profit in foreign accounts is largely made by the purchase of exchange at a lower rate than that at which it is sold. This is a general statement and should not be taken too literally, for when a department deals in futures, profit determination is quite complicated.

TRANSACTIONS IN FOREIGN CURRENCY.—Assume that £400 of sterling currency is

bought at the rate of $4.45, making a cost of $1,780. A similar auxiliary record would be kept for foreign currency excepting that there would be no value date. Purchases would be entered on the left, and sales on the right, or credit, side. If £200 of the £400 sterling is sold at the rate of $4.50, there is a profit of five cents per £, and that indicates very generally the way in which foreign currency is dealt in. Of course, the auxiliary sterling currency account would be charged at the time of purchase as an offset to the cashier's check or cash paid, and there would be a control entry on the general ledger of the bank to the debit of the foreign currency control account. The student should not assume that there are two debits for one credit because that is not the case. On the general ledger of the bank the debits offset the credits in foreign transactions as well as others, and proofs of auxiliary foreign department accounts are made by comparing their total balance with the several foreign department general ledger accounts—in dollars.

TRANSACTIONS IN FOREIGN BILLS.—Owing to the fluctuations of the foreign exchanges, foreign bills have been drawn of late for the most part in dollars. If an advance is made on a bill which is drawn in foreign currency, the customer is either given a percentage of the converted value or the exact amount of the converted value, depending upon his credit standing and that of the drawee abroad. The ledger for foreign bills purchased is much the same in principle as the one illustrated under foreign

exchange purchased and sold. Briefly, there are on both debit and credit sides foreign amount (or dollar face) and dollar cost columns; the profit is computed by deducting the dollar cost of a bill from the amount of the proceeds in dollars, the proceeds being increased by the interest charge made against the American customer for the time which has elapsed between the extension of the dollar credit to him for the bill and the receipt by the bank of the proceeds. Thus if a bill cost $25,000 and the bank collected, including interest, $25,200, its gross profit on it would be $200. This illustration covers bills drawn in dollars only. The classification of accounts in the foreign bills ledgers is ordinarily by country to which sent. Whether the bills are drawn in dollars or foreign currency does not matter so far as bookkeeping is concerned. The bank general ledger debits and credits covering advances on foreign bills are as follows:

Debit: Advances on Foreign Bills
Credit: Cashier's Checks

The term "advances on foreign bills" is better than the phrase "foreign bills purchased" because no bank buys outright a customer's bill, but always takes it subject to charge back if the bill is not paid by the drawee abroad.

ACCEPTANCE TRANSACTIONS.—Acceptance credits are extended for both imports and exports, and also for domestic transactions. An acceptance letter of credit is an undertaking on the

part of the bank to accept for financing purposes the drafts drawn, usually by exporters or importers in cover of their shipments. To illustrate: Eldridge & Company of Liverpool, England, are shipping cotton to Lamson & Company, New York. The New York merchant goes to his bank in New York and asks it to open a credit in favor of the shipper, Eldridge & Company, in Liverpool. If the bank grants the request, it authorizes Eldridge & Company to draw on it to the extent of the invoice, and usually signifies that invoices and the bills of lading and other documents must accompany the draft. On the strength of this letter of credit, Eldridge & Company take the draft drawn, we will say, for $3,000 to their own bankers at Liverpool who advance funds on it. The Liverpool bankers send the draft, with documents attached, to this bank located in New York. Upon its receipt in New York, if all documents and papers are in accordance with the credit, this bank accepts it, to mature ninety days after date of acceptance, and makes the following entries on its general ledger:

Debit: Customers' Liability for Bills Accepted.....	$3,000	
Credit: Acceptances Outstanding		$3,000

The accepted draft is then delivered to the presenting bank, usually the agent here of the foreign bank. The draft, of course, may be sold or kept by the presenter until the maturity date. The docu-

ments attached to the draft are usually delivered to the importer, in this case Lamson & Company, against his trust receipt so that he may be enabled to get his goods as soon as they arrive. A maturity tickler entry is, of course, made for the maturing acceptance, and usually a few days before its maturity the importer by agreement places the bank in funds to take up the acceptance. These funds are usually credited to a credit balance account called "acceptances anticipated" or some such title. On the due date the acceptance, of course, comes in and is paid by the bank, the charge being against the anticipated acceptance account, and the credit to cash or cashier's checks or customer's account. Another entry is made reversing the amount set up in the general ledger at the time the acceptance was made, the entries being:

Debit: Outstanding Acceptances	$3,000	
Credit: Customers' Liability for Bills Accepted		$3,000

Banks charge commission for the acceptance credit service and they also charge for the act of acceptance.

FOREIGN DEPARTMENT TRADING.—Traders in foreign departments are those whose function it is to buy and sell exchange, that is, to buy and sell title to bank balances abroad in the form of checks on foreign banks, cable transfers directing one foreign bank to pay another, and bills of exchange

drawn for commercial and other purposes. The larger banks keep balances abroad in many foreign currencies, and the traders in an active trade department are constantly buying and selling against these balances. Just as soon as a contract to deliver or receive is entered into, the bank has committed itself either to receive exchange against dollars or to deliver exchange against the receipt of the converted amount in dollars. There are other transactions involving more than two currencies, but they need not be dealt with here. Assume that on May 15 this bank agrees to deliver some time during June a cable transfer for £4,000 sterling at the rate of $4.50. That means that it has agreed to deliver some time during June, usually at the option of the buyer, £4,000 sterling for 18,000 American dollars. The delivery will be made in the form of an order on a foreign correspondent of the selling bank to deliver £4,000 to the order of the buyer. That is an example of a future foreign exchange contract. Exchange contracts are of two kinds, spot and future. A "spot" contract is an agreement to receive or deliver exchange at a definite or determinable date, usually within several days of the date of the contract. There is no absolute line drawn between future and spot contracts. The main point to be brought out with respect to these contracts, however, is that when a contract is entered into, the bank has committed itself, and has thus incurred a liability, and that liability should be evidenced somewhere on its bookkeeping records.

TRADERS' BOOKKEEPING RECORDS.—In the more progressive banks it is customary to keep records classified first by currency, and under currency by date or month of delivery, showing the commitments of the bank in the purchase and sale of exchange. The sheets for each currency have purchase and sales sides. Under "purchase" would be shown, of course, all commitments to buy giving: (1) Contract number; (2) from whom bought; (3) foreign amount; (4) rate; (5) dollar amount; (6) kind of exchange (that is, cable, demand or time bill); and (7) date delivered. On the "sales" side would appear similar information with respect to sales contracts, that is: (1) Contract number; (2) to whom sold; (3) foreign amount; (4) rate; (5) dollar amount; (6) kind of exchange (that is, cable, demand or time bill); and (7) date delivered. It will be obvious that the dollar amount of all purchase contracts as at the close of a given day must represent the dollar equivalent of the bank's commitments to buy. That is obviously a liability on its part, but it is also an asset by virtue of the fact that though the bank has agreed to receive at a certain or determinable time and is thus liable to the seller, the seller is also liable to the bank for the act of delivery. The opposite is true with sales contracts. The bank has committed itself to deliver exchange at certain rates at a definite or determinable time, and the total dollar value of these sales contracts represents the amount of the bank's liability; but as was shown for purchase contracts, there is a corresponding asset representing

the agreement on the part of the buyer to receive. These commitments to buy and sell exchange are satisfactorily shown in a bank's daily statement by setting up four accounts, two assets and two liabilities.

Contracts to Buy Exchange—Asset
Contracts to Buy Exchange—Liability

These should offset each other and should represent the total dollar amount of the commitments to buy exchange. There should be similar accounts for sales contracts, namely:

Contracts to Sell Exchange—Asset
Contracts to Sell Exchange—Liability

These two accounts also should offset each other. As new contracts are engaged in, the figures of the accounts mentioned increase. As deliveries are made, these commitment figures decrease. Commitment accounts are usually placed below the line on the daily statement so as not to inflate the figures. They are, of course, more contingent in character than many of the assets and liabilities appearing above the line.

OTHER FOREIGN DEPARTMENT ACCOUNTS.—It should not be assumed that when foreign exchange is purchased and sold it is always secured and disposed of for cash. It is the custom in the larger seaboard cities to pay for exchange on the steamer sailing date for checks, and on the date payable abroad for cable transfers. That means that several days may elapse between the time of

delivery of exchange and its payment, so that the entry might actually be at the time of purchase as follows:

Debit: Due from Foreign Banks and Bankers
  Credit: Due for Foreign Exchange Bought

On the date the exchange is paid for, there is a reversing entry, namely:

Debit: Due for Foreign Exchange Bought
  Credit: Cash

So with exchange sold, on the date of delivery the entries are as follows:

Debit: Due for Foreign Exchange Sold
  Credit: Due from Foreign Banks and Bankers

On the date that the funds are received for the exchange the entries are:

Debit: Cash
  Credit: Due for Foreign Exchange Sold

The brokerage commission that may be earned when exchange is bought or sold through a broker cannot be dealt with here. It suffices to say that banks usually keep a liability account showing the amount due brokers for commissions. This liability is wiped out monthly upon payment of brokers' bills covering the commissions.

ALTERNATIVE METHOD OF KEEPING FOREIGN ACCOUNTS.—In the larger banks foreign departments are operated on a branch bank basis. That is to say, a general ledger is kept within the foreign department which is balanced each day in the same way as the general ledger of the bank proper. Under such a condition there is a so-called balance or contact account between the foreign department and the general bank. The foreign accounts, of course, under such a relationship are not shown on the general ledger of the bank. The difference between the assets and liabilities shown on the foreign department general ledger would be the balance due to or from the general bank department. There would be a similar account on the latter's general ledger showing the amount due to or from the foreign department, depending upon whether there is a credit or debit balance.

BOOKKEEPING FOR STATIONERY AND SUPPLIES.—Bookkeeping with respect to banking proper has been dealt with at some length, but it is felt that owing to their importance, something should be said of the records for stationery and supplies, especially as all banks use large quantities of them. In fact, it can probably be said that in most banks little attention is given to standardization and economy in the purchase of stationery and supplies, and in maintaining an adequate record and control of them. Satisfactory storage space should be provided and items should be so arranged in storage as to make them readily available. Something will be said concerning

the accruing of expense in the succeeding paragraphs so that little attention will be given here to the matter of bookkeeping involved. Suffice it to say here that most banks are finding it increasingly desirable to charge off these items of expense as they are used or as they are delivered from the supply department to the operating department.

CARD RECORDS FOR STATIONERY AND SUPPLIES.—A satisfactory card record is one showing for each item, in fact, in the larger banks for each order of each item, the following data:

Name and description of item
Price
Date
Purchased from
Cost
Quantity ordered
Quantity received
Quantity issued
Balance on hand
Dollar value of balance

The total balance money value of all cards must show at any time the inventory value of the stationery and supplies on hand. Under an accrual system which will be explained in succeeding paragraphs this figure would equal the balance of the prepaid expense account after all departments had been charged for the stationery issued to them during the period. This would not be true, however, if prepaid expense included other items such as insurance, rent and the like.

OTHER SUPPLY RECORDS.—A sufficient number of copies of each purchase order issued should be made so that the accounting department may receive a copy, and that there may be a copy for the purchase order file, and in addition the receiving authority should have a copy for his information. Voucher checks are popular and highly desirable for items of this character. Such checks contain either on a fly sheet or on one side, the date and amount of the bills which they cover. All bills should be adequately checked with the purchase order copies and invoices and should be properly approved before payment. Postings to the supply card record are made from purchase orders and requisitions for supplies.

ACCOUNTS OF FOREIGN DEPARTMENT KEPT ON THE BRANCH BANK BASIS.—That the student may be more familiar with the accounts of a foreign department when it is conducted practically as a bank within a bank, the accounts which would appear in a moderate sized foreign department are shown below and are briefly explained in the following paragraphs.

STATEMENT OF CONDITION FOREIGN DEPARTMENT

Close of business.....

ASSETS

1. U. S. Currency.
2. Foreign Currency.

3. Internal Revenue Stamps.
4. Dollar Ledger Accounts—Overdrafts.
5. Due from Foreign Banks and Bankers—Foreign Currency.
6. Due for Foreign Exchange Sold.
7. Advances on Foreign Bills—Secured.
8. Advances on Foreign Bills—Unsecured.
9. Customers' Liability for Drafts Paid under Letters of Credit.
10. Customers' Liability for Acceptances—This Bank.
11. Customers' Liability for Acceptances—Other Banks.
12. Liability of Foreign Banks and Bankers for Dollar Exchange Acceptances.
13. Accounts Receivable.
14. Expenses.
15. Interest Paid to Banks.
16. Contracts to Buy Exchange—Asset.
17. Contracts to Sell Exchange—Asset.
18. Due from General Banking Department.

LIABILITIES

1. Dollar Ledger Accounts—Banks.
2. Dollar Ledger Accounts—Individuals.
3. Due to Banks—Foreign Currency Overdrafts.
4. Due for Foreign Exchange Bought.
5. Brokerage Account.
6. Cash Letters of Credit.
7. Anticipated Acceptances—This Bank.

8. Anticipated Acceptances—Other Banks.
9. Accounts Payable.
10. Foreign Drafts Outstanding.
11. Manager's Checks.
12. Acceptances Executed by This Bank for Customers.
13. Acceptances Executed by Other Banks for Account of This Bank.
14. Acceptances Executed to Furnish Dollar Exchange.
15. Earnings.
16. Contracts to Buy Exchange—Liability.
17. Contracts to Sell Exchange—Liability.
18. Due to General Banking Department.

ASSETS

U. S. CURRENCY (1).—Foreign departments, of course, require U. S. currency in their transactions for travelers' letter of credit purpopses and the like, throughout the day. The proof for this item in the foreign department is very similar to the proof for cash explained elsewhere. The teller maintains figures showing his opening cash, his receipts, and his payments. His closing figure is obviously his opening, plus receipts, less payments. The detail of cash transactions would be shown on his proof. The closing figure only would be entered opposite the item U. S. Currency on the statement.

FOREIGN CURRENCY (2).—This account shows the dollar value of all foreign currency on hand as at the close of business each day. The auxiliary

foreign currency ledger would, of course, give in detail the amount in dollar value of each currency of which a supply is kept on hand. The total dollar amount on the auxiliary records would prove with this item in the statement.

INTERNAL REVENUE STAMPS (3).—A small quantity of stamps is usually kept on hand for the purpose of supplying any stamps which are missing from time bills. All sales or dispositions of these stamps cause decreases in the amount of stamps on hand and all purchases increase the item.

DOLLAR LEDGER ACCOUNTS—OVERDRAFTS (4).—As has been said, large foreign banks and firms and some individuals keep dollar balances with their American correspondents, and the gross amount of these dollar balances is shown under items 2 and 3 of the liabilities. However, owing largely to the in-transit time between continents, foreign accounts are more frequently overdrawn than are domestic, and the overdrafts are shown on the daily statement under this item. The net dollar ledger account balance would be the difference between item 3 on the assets and the total of 2 and 3 on the liabilities.

DUE FROM FOREIGN BANKS AND BANKERS—FOREIGN CURRENCY (5).—Mention was made under a discussion of foreign trading of the fact that transactions in foreign exchange are largely transfers of title to portions of bank balances held by American banks abroad. An illustration was given showing how a balance in foreign currency may

be acquired. The total book dollar value of all of the foreign currency balances must equal, as at the close of each day, the figure opposite item 5 of the assets. Sales of exchange decrease the item, and purchases increase it.

DUE FOR FOREIGN EXCHANGE SOLD (6).—This item represents the balance due to the bank for exchange which it has sold during the past several days, but for which payment is suspended until the steamer sailing date, for checks, and the payable date abroad, for cable transfers.

ADVANCES ON FOREIGN BILLS—SECURED (7).—The dollar balance shown opposite this item is the total dollar amount as of the close of a given day, which has been advanced against secured foreign bills sent abroad for collection. Additional advances made increase the figure, while receipts of funds from abroad in payment of bills, decrease it. Secured bills are classified by some banks as only those with which collateral has been received, which collateral is kept until the bank is reimbursed. It is proper to classify as secured bills those supported by documents deliverable only on payment of the bills, the documents representing title to the goods shipped.

ADVANCES ON FOREIGN BILLS—UNSECURED (8).—As implied by the title, this is a group of unsecured bills on which dollar advances have been made. Common illustrations of unsecured bills are non-documentary bills and those whose documents are delivered at the time of acceptance of the bill by the foreign drawee.

CUSTOMERS' LIABILITY FOR DRAFTS PAID UNDER LETTERS OF CREDIT (9).—Banks which issue guaranteed travelers' letters of credit usually pay drafts drawn under those letters on presentation, and later collect the funds from the guarantor. Usually a traveler cashes a check at some one of the issuing bank's correspondent's places of business and the latter sends it to the issuing bank which in turn pays and charges this customer's liability account until reimbursement is received from the guarantor.

CUSTOMERS' LIABILITY FOR ACCEPTANCES OF THIS BANK (10).—A transaction in this account has been given in the foregoing paragraphs. The figures in the statement opposite this item represent the outstanding acceptances of this bank for which customers are indebted to it. While the acceptance itself is primarily the liability of the accepting bank, the customer has guaranteed to place the bank in funds, usually a few days before the maturity date of the acceptance, and this account represents the extent of the customer's liability.

CUSTOMERS' LIABILITY FOR ACCEPTANCE—OTHER BANKS (11).—Banks with the more extensive foreign connections frequently issue commercial import letters of credit under which foreign banks accept the drafts of the foreign shipper. Upon notification of the fact of acceptance, the local bank makes a debit entry to cover the liability of its customer who has agreed to place it in funds to cover the acceptance, and it makes a credit entry in account

No. 13 of the liabilities to show its own liability to the foreign bank on account of the acceptance made abroad. Thus, the acceptance accounts, Nos. 10, 11 and 12 in the assets, showing customer's liability due to the bank, offset items 12, 13 and 14 of the liabilities, these latter representing the obligations of the bank.

LIABILITY OF FOREIGN BANKS AND BANKERS FOR DOLLAR EXCHANGE ACCEPTANCES (12).—This is simply an additional class of acceptances, namely, those made for the purpose of creating adequate dollar exchange for the benefit of foreign banks which sometimes find it desirable to build up dollar balances here in that manner. This is accomplished by a rather simple process: After the draft has been accepted and turned over to representatives of the foreign bank, it may be discounted anywhere for cash or for credit. This asset, account No. 12, represents the liability of the foreign banks to the accepting bank for reimbursement. Item 14 among the liabilities offsets this asset account.

ACCOUNTS RECEIVABLE (13).—Many small expenditures are made from time to time in an active foreign department for which reimbursement is obtained only after the customer for whose account payment has been made has been notified and remits or authorizes a charge to his account. Such are for example the advances made for wire and stamp charges.

EXPENSES (14).—Foreign departments as well as domestic incur various expenses depending

upon their size. Many banks have gone so far as to separate completely their foreign from their domestic business, charging their foreign department with all expenses incurred in connection with it, such as salaries, stationery, rent and the like. In addition to these, there are other items which would be included in this expense account, such as cable expenses and wire charges. The balance of the expense account should be closed out at the end of each closing period as was explained for domestic profit and loss accounts in a previous chapter. Auxiliary records show the various items making up this expense item.

INTEREST PAID TO BANKS (15).—This is the interest which is paid on foreign dollar account credit balances. Many banks would prefer to set up a separate account not only for this interest item, but for other large items, such as salaries and stationery, as well. That is largely a local matter.

CONTRACTS TO BUY EXCHANGE — ASSET (16).—The nature of this item was explained in the foregoing paragraphs. It represents the total dollar value of all commitments or contracts to buy foreign exchange. As was said, the firm which agrees to deliver foreign exchange to the bank at a definite or determinable date, has committed itself accordingly, and that is in a sense an asset to the bank which is offset by the bank's liability to receive. The liability of the bank is reflected by the liability account "contracts to buy exchange—liability."

CONTRACTS TO SELL EXCHANGE — ASSET (17).—This account likewise was explained as

the total dollar value of all contracts to sell foreign exchange, or portions of bank balances in foreign countries.

DUE FROM GENERAL BANKING DEPARTMENT (18).—This is the contact account between the foreign and domestic departments. If the foreign department liabilities exceed assets, there will be a debit balance in this account representing an amount due from the general banking department. If vice versa, the balance will be a credit and it will appear opposite item 18 of the liabilities.

LIABILITIES

DOLLAR LEDGER ACCOUNTS — BANKS (1).—As has been explained in discussing the assets this represents the gross amount of the dollar deposit balances carried here by foreign banks.

DOLLAR LEDGER ACCOUNTS—INDIVIDUALS (2).—Many banks keep the dollar deposit balances of foreign individuals in the foreign department for the reason that transactions in these accounts are essentially of foreign origin. Many of the larger foreign firms, as well as some individuals, find it very convenient to have dollar balances with American banks, just as many of our corporations with international business find it convenient to carry balances in foreign banks in the foreign currencies.

DUE TO BANKS — FOREIGN CURRENCY OVERDRAFTS (3).—This is the dollar value of the overdrafts in accounts which this bank keeps with foreign banks in their currencies. These overdrafts

are frequently, of course, more apparent than real as the actual situation in an account abroad would be greatly modified by the paper in transit, either of remittance or draft character.

DUE FOR FOREIGN EXCHANGE BOUGHT (4).—This account is similar to item 6 of the assets, previously explained, except that it represents the amount due by the bank for exchange which it has purchased and for which payment is made, generally in accordance with steamer sailing dates or foreign payable dates.

BROKERAGE ACCOUNT (5).—This item represents the amount due to brokers for their commissions earned on purchase and sale transactions made by the bank through them. Bills are rendered by brokers usually monthly, and until the time of payment the amounts due accumulate in this brokerage account. The details showing the amounts due the various brokers are shown on the auxiliary records.

CASH LETTERS OF CREDIT (6). — Many travelers and some merchants pay cash in advance for letters of credit issued by banks. These funds are essentially deposits and are carried in the cash letters of credit account pending their use. Checks which come in under travelers' credits, or documents which are received and paid for under commercial credits, cause reductions in the balance of the cash letters of credit account.

ANTICIPATED ACCEPTANCES — THIS BANK (7).—As has been said, customers for whom acceptances have been made usually place the bank in

funds before the maturity date of the acceptances. Some customers make payment considerably in advance of maturity. The funds are held in what are called anticipated acceptances accounts and they are in effect prepayments which are held until the acceptances mature, at which time the funds are used by the bank to pay the maturing paper.

ANTICIPATED ACCEPTANCES—OTHER BANKS (8).—The preceding account represents prepayments covering acceptances made by this bank. This account is the same, except that the funds received are in cover of the acceptances made for this bank by other banks.

ACCOUNTS PAYABLE (9).—There are some transactions for which banks receive payment a day or more before they in turn pay out the funds, such as, for example, cables and telegrams which are sent for customers. The customer may pay for the cable at the window or the bank may pay the telegraph or cable company on receipt of the bill.

FOREIGN DRAFTS OUTSTANDING (10).—Foreign banks use American correspondents in exactly the same way as American banks use banks in other lands; that is, dollar drafts are sold by foreign banks to their customers for the purpose of international remittance and payment. Advices are, of course, sent at the time of drawing by the foreign bank and it has been the custom among larger banks in the United States, as it is on the continent abroad, to charge foreign accounts on receipt of the advice. That is, they charge the foreign bank dollar account

and they credit foreign drafts outstanding until the draft comes in, at which time foreign drafts outstanding is debited and the funds paid is credited.

MANAGER'S CHECKS (11).—The manager of the foreign department must issue checks in payment of exchange and for various other purposes. These checks are credited to the manager's checks account until they are paid by the bank, at which time they are charged to the manager's check account.

ACCEPTANCE ACCOUNTS (12, 13, 14).—These have been previously explained as the liability of the bank on account of the acceptances made by or for it. This acceptance paper passes from hand to hand much like treasury notes or other short-time investment paper, and is of course tendered on its due date to the bank which accepted it. At the time of payment these outstanding acceptance figures are reduced accordingly, likewise the corresponding asset accounts.

EARNINGS (15).—This is a control account corresponding to the expense account on the asset side. It is supported by all of the earning accounts of the foreign department, some of which are commissions on travelers' and commercial credits, profits in the sale of exchange, and profits made through the purchase and sale of foreign currency.

CONTRACTS TO BUY AND SELL EXCHANGE—LIABILITIES (16, 17).—These items have been previously explained as the dollar liability of the bank covering its commitments of purchase and sale in the foreign exchanges.

FOREIGN DEPARTMENT CONTINGENT LIABILITIES.—No mention was made in the foregoing statement of condition of the contingent liabilities of the foreign department. As was said, most foreign departments issue commercial letters of credit, both those of a sight and a time character. Most of them also issue travelers' letters of credit, both cash and guaranteed. Cash letters of credit are those which the customer has prepaid. Guaranteed letters are those guaranteed by some one, usually a third party. Travelers' checks are also usually dealt in by foreign departments, and it has been common for foreign departments to send foreign currency bills abroad for discount and credit. A common list of the contingent liabilities of a foreign department are, therefore:

Unused balance of sight letters of credit
Unused balance of acceptance credits
Unused balance of travelers' letters of credit (guaranteed)
Travelers' checks on hand
Foreign bills discounted abroad for the bank's indorsement

UNUSED BALANCE OF SIGHT LETTERS OF CREDIT.—If a bank issues a confirmed or nonrevocable sight commercial credit, it has undertaken to pay out funds usually against documents presented to it by some shipper in connection with a shipment of goods. Having obligated itself to pay, provided certain papers are tendered by the shipper, the bank has thus incurred a contingent liability. Obviously some one else has incurred a contingent liabil-

ity to the bank in guaranteeing to take the documents up against payment. That is, of course, the bank's contingent asset, offsetting the liability. The amount of the contingent liability for the unused balance of confirmed sight letters of credit is measured by the total dollar value of the unexpired and unused portion of sight credits outstanding at a given moment.

UNUSED BALANCE OF ACCEPTANCE CREDITS.—These commercial credits are of a time character, that is the bank does not strictly pay out funds against documents representing goods in transit, but it accepts drafts for such documents, the drafts maturing after a certain period. That is the time element in the credit. For exactly the same reasons explained under sight credits the amount of acceptance credits issued and unused is a contingent liability of the bank. This relates to confirmed credits. So-called unconfirmed credits are those which are revocable at will by the issuing bank and are not therefore liabilities.

UNUSED BALANCE OF TRAVELERS' LETTERS OF CREDIT. (Guaranteed).—As in the case of travelers credits which have been issued by the bank and which it has obligated itself to pay drafts against, the bank is contingently liable to the extent of the credits issued. Each new credit issued increases the liability. All checks paid, by decreasing the amount of unused balance, decrease the contingent liability.

FOREIGN BILLS DISCOUNTABLE ABROAD FOR THE BANK'S INDORSEMENT.

—Certain time bills drawn in foreign currency are discountable in the larger centers abroad. If a bank's balances abroad are running low and the rates are favorable there, a bank is inclined have some of its paper discounted, but the credit which is extended to it for the bill is only contingent on its ultimate payment which means that a bank remitting paper for discount is contingently liable on account of its indorsement until the paper is paid. All of the above contingent liabilities are usually shown on the statements of the larger foreign banks and many of them show contingent assets offsetting the liabilities. The proper place for these figures is below the double line on the balance sheet.

BRANCH BANKING.—With the increase in popularity of branch banks, inter-branch bank bookkeeping has become more important. There is nothing very complicated about it. As was explained for the foreign department, when it is handled on a branch bank basis, there are on all branch bank general ledgers, head office contact accounts, on the debit side an account called due from head office and on the credit side one entitled due to head office. On the head office books there are similar accounts, namely, due to and due from branches. Reports of condition or trial balances are sent by the branches to the head office each day so that a consolidated condition report may be made up showing the condition of the bank on the whole, irrespective of head office or branch. In the consolidated report, inter-branch accounts are, of course, eliminated. Branches

engaging in transactions with each other debit and credit each other just as though there were no corporate relationship between them; for example: If branch A sends cash to branch B, the entries on A's books would be:

Debit: Due from B
    Credit: Cash

The entries on B's books covering the transaction would be:

Debit: Cash
    Credit: Due to A

The head office keeps an auxiliary record of each day's transactions with each branch so as to locate any differences which may arise, and for the purpose of checking out inter-branch transactions.

RESERVE FOR CONTINGENCIES.—In banking as in other businesses, but particularly in banking, it is obviously inadvisable to keep questionable loans or other assets on the books with figures in excess of what they are considered worth. In times of retrenchment, such as that which occurred on a great scale during 1921, some customers find it difficult or impossible to meet their loan obligations. Such items must be charged off, and the practice among many banks is to charge the undivided profits account and reduce the questionable loan, discount, or other asset accordingly. A better practice, however, is to set up a reserve for contingencies by allotment of undivided profits. The following are the

entries required to create a reserve of $5,000 under such an arrangement:

Debit: Undivided Profits...	$5,000	
Credit: Reserve for Contingencies		$5,000

Such a reserve account should be used for one purpose, namely, that of showing all bad debt reductions, expenses in connection therewith, and recoveries thereon. The advantage of a separate account is that the items in question are concentrated in one place and are not lost track of in the undivided profits account, as so frequently happens when they are carried in that account with other items of a diverse nature.

THE AUXILIARY RECORD FOR THE CONTINGENCY RESERVE.—If a reserve for contingencies is established, it is well also to install an auxiliary record of it, showing under name of customer or debtor the amount written off, any expenses incurred in connection therewith, and such recoveries as may be realized from time to time. All this may conveniently be shown on a record with the following columns: Date; description in detail; debit; credit; balance. The "balance" column under each account would show the amount contingently due from each customer who may have defaulted. It should not be assumed, however, that the sum total of the balances due from all customers would equal the balance of the reserve in the contingent account. If a control is desired it may be accomplished by

setting up, preferably on the first few pages of the auxiliary record, two accounts, one called a contingent asset account, representing the entire amount due from all these debtors, and a liability account, consisting of not only the total due from all customers, but the balance of the contingency reserve as well. By deducting the contingent asset from the contingent liability the balance should equal at all times the balance figure in the reserve for contingencies. Also, the contingent asset account should equal the total amount due from customers on account of depreciated assets. This balance must be maintained, of course, by a control entry process, for example: If a customer's account on the auxiliary record is debited, or increased, the contingent asset account must be increased accordingly, and so on. These control accounts are not considered so vital as the auxiliary record itself showing the amount due from each customer.

CHAPTER XIV

Accrued Items and the Audit

ACCRUED AND CASH BOOKKEEPING COMPARED.—Cash basis bookkeeping is that which records entries at the time funds are received or paid in connection with a given transaction. Accrued bookkeeping, on the other hand, is that process under which entries are made in accordance with the accrual or incurrence of an obligation, irespective of when the cash may be paid therefor. These definitions apply equally to assets acquired and liabilities incurred as they do to expenses and earnings. No bookkeeping these days is strictly on the cash basis except that of the crudest variety; but it is desirable to illustrate the difference between the cash and the accrued basis in bookkeeping. Under the cash basis if the bank buys, on June 1, stationery enough to last it one year, it makes entries as follows:

Debit: Expense	$1,200	
Credit: Cash		$1,200

That means that the month of June would stand the expense for the entire year which, of course, from a comparative standpoint, is incorrect. On the accrued basis the entries for that outlay would be as follows:

Debit: Prepaid Expenses...	$1,200	
Credit: Cash		$1,200

At the end of each month, to show the proper proportion of each month's charge, the following entries would be made:

Debit: Expense	$100	
Credit: Prepaid Expenses		$100

This entry would, of course, be for one-twelfth of the entire outlay, provided that stationery has been purchased for the entire year. As was implied, most bookkeeping is of a mixed character, partly accrued and partly cash. Having dealt in a previous chapter with cash basis entries on interest and expenses, it remains to show here these entries on the accrued basis.

ACCRUED EXPENSES AND EARNINGS.—The following expenses are frequently accrued: Salaries, unless they are paid monthly or more often, rent, taxes, depreciation, books and stationery, and insurance. The control entries for the accrued basis on expenses were given in the previous paragraph. Auxiliary records would, of course, be kept supporting the prepaid expense account showing what it is made up of. Such income as is collected semi-annually or annually should likewise be accrued, especially if it is of considerable amount. For example, a bank regularly sends bills each six months to all corporations for whom coupons are being paid. If the bookkeeping were on a cash basis, the earnings in the month of payment would be unusually large. Assuming that customers are billed in each case for

the past six months, the entry upon receipt of the cash would be:

Debit: Cash	$1,200	
Credit: Commissions ...		$1,200

However, it would be more satisfactory, assuming that past business relations have given reasonable assurance that the service charges would be paid, to make the following entries at the close of each month:

Debit: Due from Customers on account of Coupon Collection Service....	$200	
Credit: Commissions ...		$200

On that basis at the end of the six months' period when the service charges are paid, the entries would be:

Debit: Cash	$1,200	
Credit: Due from Customers on account of Coupon Collection Service		$1,200

In general, it should be said that anticipation of earnings is not conservative bookkeeping. In connection with "earnings" there is another point to be brought out, and that is that when service charges are prepaid, credit should be taken in the earnings and expense statement only as the service is rendered, irrespective of the fact of prepayment. That would be accomplished by the following entries: Assuming that

$1,200 has been prepaid for six months' service, the entries covering the payment would be:

Debit: Cash	$1,200	
Credit: Commissions collected not yet earned..		$1,200

At the end of each month the following entries would show the proportion of profit made during the month:

Debit: Commissions Collected not yet earned.....	$200	
Credit: Commissions....		$200

The student should remember that the "prepaid" accounts, both those of debit and credit character, should be regarded as assets and liabilities rather than as earnings and expenses. Only such portion of them as is "accrued" would be taken into consideration in the current earning statement.

ACCRUED INTEREST ON LOANS WHICH IS NOT PAID IN ADVANCE.—A bank making up monthly earnings and expense statements would obviously not show the actual situation if interest on time loans were credited to the earnings account only on the maturity of the loan, or at three months' intervals. The monthly earnings statement should show the actual amount of interest earnings, irrespective of the time of payment. The only proper way to accomplish this is to accrue daily the interest on loans. A common and desirable way of doing this is to classify on an auxiliary accrual sheet all loans made and paid each day by rate so as to obtain

the accrued figures. The accrued sheet usually itemizes "loans made" on one side and "loans paid" on the other. The following is a summary of the detail which might be shown on such a sheet:

	Total	4%	5%	6%	7%
Amt. of Loans close of 6/29	$105,000		$40,000	$65,000	
Loans made 6/30	25,000		10,000	15,000	
	130,000		$50,000	80,000	
Loans paid 6/30	25,000		5,000	20,000	
Loans close 6/30	$105,000		$45,000	$60,000	
			5%	6%	
Total interest credited for one day on June 30	$ 6,210		$ 2,250		
				$ 3,690	
	$ 16.25		$ 6.25	$ 11.00	

The foregoing shows in simplified form how the interest on all loans in this classification for one day would be arrived at. At the close of each day the following entries would be made:

Debit: Interest Accrued on Loans $16.25
Credit: Interest earned on Loans $16.25

If A. & Company pays its three months' loan on July 1, on which the interest amounts to $10, the following entries would be made, ignoring for the moment the entries for the loan itself:

Debit: Cash $10
Credit: Interest Accrued on Loans $10

It must be borne in mind that interest on A. & Company's loan has been accrued for every one of the days it has been on the books, so that the $10 has by daily accrual process accumulated in the asset account, interest accrued on loans, before the day on which payment was made, namely July 1.

INTEREST ACCRUED ON LOANS ON WHICH INTEREST IS PAID IN ADVANCE INCLUDING DISCOUNTS.—A discount is simply a kind of loan on which interest has been taken in advance. In most banks the distinction between discounts and loans is purely arbitrary, as interest is taken on some loans in advance as well as on discounts. The accrual method with respect to this classification is essentially the same as that explained in the preceding paragraph. On an auxiliary accrual sheet the amount of loans as of the opening of business each day is shown under each percentage. In the same manner, as was explained, the loans and discounts made and paid are itemized and then summarized, so that the total under each rate remaining at the end of the day is finally shown. In the same manner also the total interest earning on this group for each day is ascertained. It should be remembered that when loans or discounts on which interest is taken in advance are made, the entries are as follows:

Debit: Loans or Discounts..	$10,000	
Credit: Discount Collected not Earned.....		$100
Credit: Due to Depositors		$9,900

Having collected the discount in advance and set it up in a liability account called discount collected but not earned, the following entries are necessary for the amount of income accrued each day:

Debit: Discount Collected not Earned
Credit: Discount Earned

It should be apparent that great care must be exercised in setting up these figures, in proving them, and in making adjustments for past due paper, unpaid interest, etc., so that the accrued figures will reflect the actual situation.

ACCRUALS WITH RESPECT TO INTEREST PAID ON MONEY BORROWED.—Borrowings from Federal Reserve banks in the past have been of such short time character as to make unnecessary the daily accrual of interest charges thereon. That is, payments for interest were made so frequently that, for practical purposes, they reflected the actual situation. However, when banks under any condition borrow from others for rather long periods, and prepay their interest, they might well consider the plan of accruals explained in the preceding paragraphs. The entries to cover such accruals at the time of rediscount would be as follows:

Debit: Prepaid Interest on Borrowings	$200	
Debit: Cash, or Correspondent's account	9,800	
Credit: Rediscounts		$10,000

At the end of each month or earning period the following entries should be made:

Debit: Interest Paid on Money Borrowed
Credit: Prepaid Interest on Borrowings

INTEREST ACCRUED ON INVESTMENTS.—In principle, interest should be accrued on the bank's investments as well as on its loans, but in practice it is not usually done, because the interest payable dates on the bank's investments are generally pretty well spread over the year. However, the principle involved in the accrual of interest on securities and investments might well be illustrated. Suppose United States bonds are purchased at a premium, that is, above par. As it is undesirable, and in fact incorrect, to set up a United States bond on the books for more than its par value, the entries made for the purchase of United States bonds at $1,000 par and premium $100 are:

Debit: United States Bonds	$1,000	
Debit: Premium on United States Bonds	$100	
Credit: Cashier's Checks		$1,100

The premium on bonds is properly wiped out as interest is collected and as the bond approaches its maturity date. This is done on the principle that if the bond is selling above par, the purchaser pays the premium because of the high interest rate compared with the safety and other virtues of the bond. The entries on each interest maturity date are as follows:

Assume that the interest is 5% and that the basis of yield on the investment is $4.50, the entries to cover the receipt of the $5 interest payment are as follows:

Debit: Cash	$5	
Credit: Interest on Investments		$4.50
Credit: Premium on Bonds		.50

There is another point which should be explained in this matter of accrued interest on bonds. Assume that a $100 6% bond is purchased midway between its coupon payable dates, that is, that there is $1.50 accrued interest on the bond. The proper entries to cover that purchase are:

Debit: Other Bonds Purchased	$100	
Debit: Accrued Interest on Bonds	1.50	
Credit: Cashier's Checks		$101.50

The foregoing illustration implies that the bond is purchased at par. On the interest payable date, namely, on the date on which the $3 coupon is clipped and collected, the entries are as follows:

Debit: Cash	$3	
Credit: Accrued Interest on Bonds		$1.50
Credit: Interest on Investments		1.50

INTEREST ON TIME DEPOSITS.—Time deposits and time certificates of deposit should like-

wise be handled on an accrued interest basis, especially if they are considerable in amount. No new principle will be encountered in accruing interest on these deposits. The problem is simply one of ascertaining the amount of interest accrued on them during a given month and setting it up as follows:

Debit: Interest Paid on Time Deposits
Credit: Accrued Interest Payable on Time Deposits

The debit is, of course, a charge to a loss account, that is, to an account which would be wiped out through the closing process. The credit becomes a liability which would not be affected by the closing of expense and earning accounts. When interest is paid on deposits of a time character, the entries are:

Debit: Interest Payable on Time Deposits
Credit: Cash
or
Credit: Customer's account

These accrual entries were based on the assumption that the earnings and expense statement is made up monthly, which is more desirable than semi-annually because it is felt that statements of earnings and of expenses should be brought to the attention of the officers more frequently than twice a year.

Audits

THE COMPTROLLER.—Very little can properly be said of the functions of the comptroller. It

suffices to say that he is the chief of accounts and accounting in the bank. This involves the development and continuous improvement of the accounting system and a close scrutiny of all of the expenses and earnings of the bank. The audit function is auxiliary to that of the comptroller. Having developed the bookkeeping in previous chapters, we will consider the auditing of books and analysis of transactions.

THE AUDITOR.—In the larger banks this important official's functions are highly varied. His work is by no means confined to analysis. His major responsibility is that of seeing that all transactions have been routed and recorded correctly and that there are no unauthorized ones. More specifically, his duties may be divided into the following subclassifications:

1. Investigation of and response to all customers' inquiries relative to adjustments, and also the handling of inquiries from all examining authorities;
2. Cost analyses;
3. Control of interest income on loans and investments;
4. Control of interest payments on customers' deposits;
5. Follow-up on depositors' reconcilements;
6. Reconcilements of all accounts which the bank has with correspondents;
7. Custody of all bank records;
8. Compilation of bank statistics;
9. Charge of all checks and audits.

INVESTIGATION OF AND RESPONSE TO ALL CUSTOMERS' INQUIRIES RELATIVE TO ADJUSTMENTS (1).—In any bank customers are constantly asking for information as to items on their monthly statements, and as to the fate of various items deposited by them. Space does not permit of enumerating the various types of inquiries which a bank receives, but all of those which relate in any way to adjustments are handled by the auditor. A complete investigation in each case must be made, of course, and any adjusting entries that may be required must be made under the authority of the auditor. Statements required by National, State, and private examining authorities should be furnished by the bank's auditor.

COST ANALYSES (2).—Many banks have separate divisions or departments devoted to cost finding. Is a department yielding sufficient income to justify its existence? Some departments obviously do not, as they are almost purely of a service character such as so-called customers' securities or custody departments, at least as they were usually operated during former times. There is a tendency for banks these days to make departments pay for themselves. What is the minimum balance that a bank can make money on and still permit a customer to use its checking facilities? It is not generally known that it costs a bank a considerable sum to open an account if consideration is given for various index records (cross-reference otherwise required), and for the stationery and labor costs in connection there-

with. Thorough cost finding will determine, from an analysis of the entire relations with a customer, just what the profit or loss status of his account may be. The balance carried by the customer is, of course, a major factor in this cost computation.

THE CONTROL OF INTEREST ON LOANS AND INVESTMENTS (3).—Many banks maintain complete control over the interest income on loans by maintaining a separate so-called skeleton set of records of all loans made and paid, classified by kind. The auditor under this arrangement receives each day the registers of loans made and paid from the loan department and makes entries on his own records showing the balance of loans as at the close of each day under each borrower's name. A continuous inventory of loans is thus kept so that when bills are rendered to customers for interest on loans the auditor checks them against his own figures and releases them if they are collected. By a follow-up later he assures himself that all of the funds have been collected for the bills and thus maintains a complete control of the loan interest, and incidently a complete control of the amount of all loans. Interest income on the bank's investments is controlled by a method analogous to that previously explained for loan interest.

THE CONTROL OF INTEREST PAYMENTS ON CUSTOMERS' DEPOSITS (4).—Under the discussion of the duties of the individual bookkeepers it was said that interest statements are currently posted by the depositors' ledger clerks, who

ascertain each day the amount of balance on which a customer earns interest. A simple form which yields all the information that is required is one giving the interest balance for each day of the month, the figures for each day of the month proceeding down the page from top to bottom. Thus, at the end of the month the balance for each day on each account is shown, and the grand total must represent the interest due the customer in question for one day. This was explained previously, but what should be kept clearly in mind in this connection is, that if a man has $100 in the bank for thirty days, it is the same as $3,000 for one day. The auditors check these interest statement figures compiled by the bookkeepers each day, and post them usually to records of their own so that when the day of interest credit or payment arrives, the figures are all available and computation becomes comparatively simple. Interest credit entries are then put through the books and corresponding charges are made to the interest paid account.

THE FOLLOW-UP ON DEPOSITORS' RECONCILEMENTS (5).—As has been explained, depositors are given statements of account monthly, or more frequently, as they may desire them. The balance at the end of the month is shown on the statement, and a form is usually enclosed requesting the customer to reconcile the statement with his own records and to signify on the form the fact of agreement or otherwise. It is the auditor's duty to see that all of these acknowledgment forms are returned in

due course, and to see that those certificates on which differences appear are promptly investigated and adjusted.

RECONCILEMENTS OF ALL ACCOUNTS WHICH THE BANK HAS WITH CORRESPONDENTS (6).—As the bank sends out statements to all of its own customers, so it receives from its own correspondents statements of balances carried with them. It is one of the duties of the auditor or his assistants to check promptly all debits and credits appearing on these statements with the bank's records in accordance with the method explained under reconcilements in a previous chapter. All items of difference, including those in transit, are followed up until they are adjusted.

CUSTODY OF ALL BANK RECORDS (7).—One of the best indications of a good bookkeeping system in the bank is that of the availability of old original entry records. Many banks find it difficult to go back eight or ten years to find basic information with respect to a transaction. It should be a duty of the auditor to insure that all records are adequately classified and kept in accordance with definite principles. Decision as to the destruction of records should be made only after the most careful study, as probably there is no one point in which foresight is more necessary than in the proper custody of old records.

CONTINUOUS CHECKS (9).—One of the major duties of an auditor is to make certain that he and his assistants are daily checking and controlling

the more important transactions in the bank involving the disposition of either the bank's or customers' funds. Subsequently, the auditor must see that all securities received by the bank are either placed safely in vaults or otherwise properly disposed of. He must assure himself that all withdrawals of securities, whether from customers' deposits or from the bank's own investments, are properly authenticated and accounted for. All cashier's checks issued must be properly approved and followed up for cancellation. Cash items in possession of the teller must be frequently verified, if not daily, to insure that they agree in total with the figures on the ledger. Debit and credit tickets, especially debits to general ledger accounts, should be closely scrutinized for authority and should be checked to the accounts themselves to insure authenticity and accuracy of recording. A daily control of all profits and expenses should be instituted to make certain that all earnings made are received, and that expenses incurred are legitimate. Many other items might be mentioned, but these are given to indicate the character of the check made.

SPOT AUDITS OF DEPARTMENTS AND BRANCHES.—The auditor and his assistants frequently make "spot" or "unannounced" examinations of the entire bank or of the various departments, and of the branches, if there are any. These examinations usually consist in the verification of the accuracy of assets and liabilities, in the count of all cash and securities, and in letter verification from customers in connection with those departments

which deal directly with them. The auxiliary records of a department are always reconciled with the general ledger accounts controlling them and the detail shown on the auxiliary records is frequently scheduled by the auditor and checked out as the items mature or are liquidated. This procedure frequently involves a great deal of detail and requires a number of assistants.

INSPECTIONS OF DEPARTMENTS AND BRANCHES.—Inspections are more directly the province of the comptroller, or of the president of the institution. They involve something more than examination into the accuracy of accounts and the character of the system of operation. They determine the correctness of methods, of loan policies, and of bank management in general.

IMPORTANCE OF BOOKKEEPING.—These matters of audit and control, while strictly out of the province of bookkeeping as a recording process, are introduced to show the great importance of bookkeeping as an agency in proper bank operation.

Suggested Arrangements of Accounts in the Daily Statement

EXPLANATORY OF THE FOLLOWING ARRANGEMENT. — Most bank statements start with loan assets on the left side and capital liabilities on the right. That practice is not pursued in manufacturing and mercantile statements which are most desirably arranged when the assets and liabilities are

placed in accordance with their liquidity, that is, the more active or current liabilities first, and so on down. That general principle has been used in the following illustration because it is felt that if the assets and liabilities of mercantile, manufacturing, and public utility corporations should appear in the order of their currency there is no reason why the same arrangement generally is not desirable and practicable for banks:

Asset or Debit Balance Classifications

CASH AND DUE FROM BANKS

Cash:
- Gold
- Silver and Minor Coin
- Paper Currency

Foreign Currency
Cash Items
National Bank Notes on Hand
Reserve at Federal Reserve Bank
Due from Federal Reserve Bank—Collection Account (Transit Items)
Due from Other Banks—Collection Account (Transit Items)
Internal Revenue Stamps
5% Redemption Fund
Due from Depositors—Overdrafts
Due from Foreign Banks and Bankers
Due from Tenth National Bank, New York
Due from Branches

LOANS AND DISCOUNTS (AND ACCOUNTS RECEIVABLE)

Loans, Demand
Loans, Time
Loans, Time, Pledged with Federal Reserve Bank
Bills Discounted
Bills Discounted Overdue
Commercial Paper Purchased
Due from Customers for Foreign Exchange Sold
Advances on Foreign Bills
Customers' Liability for Bills Accepted
Interest Accrued on Loans
Accounts Receivable
Due from Customers on account of Accrued Commissions

UNITED STATES BONDS

U. S. Government Securities Owned and Unpledged
U. S. Government Securities Deposited to Secure Circulation
U. S. Government Securities Pledged to Secure Postal Savings Deposits
U. S. Government Securities Pledged as Collateral to Bills Payable

OTHER BONDS AND STOCKS

Securities Other Than U. S. Bonds
Other Bonds Pledged to Secure U. S. Deposits
Federal Reserve Bank Stock

MORTGAGES AND REAL ESTATE

Real Estate Owned
Mortgages

MISCELLANEOUS ASSETS INCLUDING BUILDING AND FURNITURE AND FIXTURES

Banking House and Lot
Premium on U. S. Bonds

PREPAID EXPENSES

Prepaid Expenses
Prepaid Interest on Borrowings

EXPENSE ACCOUNT

Interest Paid on Demand Deposits
Interest Paid on Time Deposits
Interest Paid on Money Borrowed

Liabilities

DEMAND DEPOSITS

Circulating Notes Outstanding
Due to Depositors
Due to Depositors' P. M. Deferred Credits
Certified Checks Outstanding
Cashier's Checks Outstanding
Dividends Declared
Dividend Checks Outstanding
Demand Certificates of Deposit

Due to Branches
Due to Foreign Banks and Bankers (Overdrafts) on Our Accounts Abroad

TIME DEPOSITS

Trust Funds
Time Certificates of Deposit
Postal Savings Deposits
Time Deposits

OTHER LIABILITIES

Due for Foreign Exchange Purchased by us
Acceptance Outstanding
Bills Payable with Federal Reserve Bank
Rediscounts with Federal Reserve Bank
Overs and Shorts

ACCRUED LIABILITIES

Accrued Interest Payable on Time Deposits

CAPITAL, SURPLUS AND UNDIVIDED PROFITS

Capital Stock
Surplus
Undivided Profits

RESERVES

Reserves for Taxes
Reserves for Depreciation

EARNINGS COLLECTED NOT YET EARNED

Commissions Collected not Earned
Discount Collected not Earned

CURRENT EARNINGS

Commissions
Commissions—Trust Department
Interest Earned
Discount Earned
Interest on Securities
Bond Profits
Foreign Exchange Profits

INTERBRANCH ACCOUNTS. — It will be noted that interbranch accounts are not shown in the foregoing statement. That is because the statement represents the consolidated accounts of the main office and all branches and divisions. Interbranch and interdivision accounts are, of course, eliminated by the process of consolidation because if one branch owes another it is an asset of one and a liability of the other. The institution as a whole is not affected by interbranch borrowing and transactions.

REAL AND NOMINAL ACCOUNTS. — Accounts are sometimes classified as either real or nominal. Real accounts are assets and liabilities, that is, those representing property owned and debts due to or by the bank. Nominal accounts are those of a profit and loss, or expense and earning character. In classifying the debit items on the foregoing statement no difficulty will be experienced, excepting possibly the following:

Premium on United States Bonds
Prepaid Expenses
Prepaid Interest on Borrowings

These items are of a mixed character so far as the terms "nominal" and "real" go. The first item, namely, "Premium on United States Bonds" is in the nature of a reduction in the amount of interest that will be actually earned on the bonds as against that which would be earned if the premium had not be paid; in other words, as the bonds approach maturity and there is interest, income is received thereon, this premium asset is reduced or amortized by an accrued process so that at the time of maturity the premium account has disappeared. This has already been shown by illustration. Prepaid items are also of a mixed character, representing expenses prepaid for a later period. Strictly speaking they are not assets, but yet it would not be proper to charge the prepaid expenses of a later period against the current one. Such items are therefore classified as assets.

LIABILITIES CLASSIFIED AS TO REAL AND NOMINAL.—As was the case with the debit balances, there are some items among credits which are of a mixed character. Demand deposits, time deposits, other liabilities, and accrued liabilities are obviously real accounts. Current earnings are obviously nominal items. Reserve items and earnings collected but not yet earned are not so easy to classify. These reserves might be regarded as more real than nominal. Reserve for taxes represents in a way a liability to State and National authorities on account of accruing taxes. The reserve for depreciation account, on the other hand, represents in reality a deduction from real assets. Earnings collected but not yet earned

are of a more nominal character as they represent simply items of profit for which credit is to be taken later. Capital, surplus, and undivided profits must be placed in a separate category called "capital liabilities." They represent the excess of assets over liabilities, the present worth of the bank, and the amount due to the stockholders, but due them only if all other liabilities are met.

ACCOUNTS CLASSIFIED AS EITHER CURRENT OR FIXED.—Current assets and liabilities are those which are turned over or liquidated in the usual course of a business cycle or period, such as in the foregoing statement, such as cash, due from banks, loans and discounts, investments, demand deposits, and time deposits. Fixed assets and liabilities are those of a slower or more permanent character such as real estate, furniture and fixtures, outstanding bonds, farm loan banks and the like. Banks have very few fixed assets and liabilities. This classification is much more applicable as applied to manufacturing, mercantile, and public utility corporations.

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